FINANCIAL GUIDELINES AND POLICIES MANUAL
FOR
PARISHES, SCHOOLS AND EARLY CHILDHOOD CENTERS

Updated 12/2011

FINANCIAL GUIDELINES AND POLICIES - PARISHES, SCHOOLS AND ECC'S

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(*) Reprinted from the United States Catholic Conference of Bishops publication, **Diocesan Financial Issues**

I. Financial and Administrative Responsibility | **Effective Date: 7/1/99** | **Revised: 1/1/01 & 7/1/06**

STATEMENT OF POLICY

The pastor is responsible for the administration of parish goods, and the goods of Diocesan parishes and schools assigned to his care. He shall exercise sound stewardship and management of the financial and physical resources entrusted to him and is bound by the parameters of Canon and Civil law. He shall employ sound business practices in conducting all financial and administrative matters of the parish and school, and shall respect the limits of ordinary administration. A pastor/parochial administrator acts invalidly if he/it goes beyond the limits of ordinary administration without first obtaining the permission of the Ordinary.

Principals of Diocesan Parochial, Interparochial and Early Childhood Center Schools report to the Pastor in charge of those schools. Principals of High Schools, Special Schools and other Diocesan Schools that are not assigned to a Pastor, report to the Superintendent of Schools at the Pastoral Center of the Diocese. All principals must exercise the same sound stewardship and management principles as those required of the pastor and adhere to the same limits of ordinary administration. In addition to these Financial Policies, principals of all Diocesan schools must adhere to education policies and procedures issued by the Office of Catholic Schools at the Pastoral Center.

PROVISIONS

1. **Acts of Ordinary Administration:** Those acts which occur regularly in the operation, maintenance and administration of parish **and school** property and activities. The limits of ordinary administration are determined not by universal law, but by particular law enacted by the Diocesan Bishop. (c. 1281, par. 2) the following are examples of ordinary administration:

   A. The collection and banking of money.
   B. Employment of personnel and payment of their salaries.
   C. The purchase of what is required for the day to day running of the plant.
   D. Replacement of standard equipment, e.g. office supplies, textbooks, audio and visual equipment, liturgical and religious supplies, etc.
   E. Acceptance of donations, free from any stipulation or requirement for service or advantageous preferences to be performed/granted by the parish or the school on behalf of the donor. (Consult Diocese Guidelines)
   F. The reparation of damages done to real estate.
   G. Execution of vendor and service contracts necessary to the maintenance of property subject to limitations by other provisions or policies herein.
   H. To spend monies or obligate the parish of school by contract for an amount less than $40,000.

   If doubt exists as to whether a matter is one of ordinary or extraordinary administration, the Secretary of Administration of the Pastoral Center should be consulted, and permission obtained from the Bishop

2. **Acts of Extraordinary Administration:** Those acts that go beyond the limits of ordinary administration which are reserved to the competence of the Ordinary. For validity, these acts of extraordinary administration must receive the prior written approval of the Ordinary. The following are examples of extraordinary administration:

   A. To buy, sell, exchange, mortgage or lease immovable property (including mobile homes).
   B. To sell, exchange, mortgage objects of art, historical documents, or other movable property of great importance.
   C. To accept or renounce an inheritance, legacy, or foundation.
   D. To borrow money, even temporarily.

E. To build, raze or rebuild in a new form a parish building or to make extraordinary (see “h”) repairs upon such buildings.
F. To accept any gift of real property
G. To enter as a party to a lawsuit on behalf of the parish in civil court.
H. To spend monies or obligate the parish by contract for an amount over and above that specified as being ordinary administration for the parish, i.e. an amount greater than $40,000.
I. To establish a cemetery or columbarium.
J. Initiate building, capital improvement and/or endowment fund-raising campaigns without the written approval of the Ordinary.

3. All parishes must have Finance Councils and such Councils must operate in accordance with Diocesan Guidelines. (See Policies III and IV on Parish Finance Councils and Appendix II).

4. All High School and Special Schools must have Finance Councils and such Councils must operate in accordance with Diocesan Guidelines. (See Policy IV-1)

5. It is the pastor’s responsibility to ensure that a separate bank account is maintained for Mass stipends, and that all such Stipends received and expended are accounted for in this account under the supervision of the Deans.

6. Corporations, Foundations, or other legal entities may not be formed without the written permission of the Bishop.

7. Book V of the Code of Canon law specifies certain requirements for the administration of the temporal goods of the Church. A Pastor and Principal must ensure that the parish and school are in compliance with such requirements in the administration of all Church temporal goods entrusted to them.

8. The Pastoral Center must be notified immediately if the Parish or School receives notice of any action involving legal or other regulatory action involving the entity or its properties. Such notice shall be sent to the attention of the Secretary of Administration.

II. Standards of Ethical Behavior and Professional Conduct   Effective date: 7/1/06

STATEMENT OF POLICY

In the ministries of parishes and schools, we are the stewards of the goods of the Church. Our Church and its beliefs are of the highest value, inspired by God. Therefore, our actions must always emulate the sanctity of the Church and be modeled to achieve the trust of the Christian-faithful. As such, pastors and principals are required to develop and implement Standards of Ethical Behavior and Professional Conduct that inspire all of the personnel of your parishes and schools to live those values in the daily conduct of the business and management of the ministry. These Standards must be a working tool to aid in decision-making, therefore they should be integrated into the policies, practices, procedures, and activities of the ministry.

PROVISIONS

1. Each parish and school should develop, document, and communicate to all of its personnel, a statement of core values. Such core values should include the values and the teachings of the Church; the need to pray; responsibility for managing Church assets; the need for good business practices; the need for the highest level of integrity and honesty in the conduct of responsibilities; and, a commitment to fair and just practices in dealing with all people.

2. Each parish and school should develop, document, and communicate to all of its personnel, a statement of personal principles. Such personal principles should include a commitment to gaining knowledge of the Church and its business practices, a commitment to provide statements of disclosure to the leadership of the Diocese should there be any possibility that an employee, his of her family, relatives or friends will personally benefit or profit from any financial/business transaction he or she may recommend; a commitment to use Church resources solely for the purposes defined by the Church and, a commitment to maintain, at all time and in all cases, professional and personal integrity. (See Appendix XII for a sample of a Conflict of Interest Policy)

3. Each parish and school should make a commitment to transparency, openness and responsiveness to parishioner and parent concerns, in the financial dealings of the entity. In addition, each entity should implement policies and procedures to protect the resources of the Church from Fraud, misuse and waste, and to provide accurate, reliable and complete financial information about the entity's financial position and the results of its ministry activities.

4. Each parish and school should develop policies and procedures that encourage individuals to come forward with credible information concerning illegal practices or violations of policies of the Diocese of St. Petersburg and its parishes and schools. These policies and procedures must specify the individuals within the entity or outside parties to whom such information can be reported. It is expected that the individuals within the entity would be the pastor in the case of a parish, parochial school, or ECC, and the principal in the case of a high school or special school. If the credible information involving an illegal practice or a violation of policies of the Diocese of St. Petersburg involves the pastor or principal, then the disclosure should be made to the Vicar General of the Diocese at the Pastoral Center. This policy must have provisions that protect the anonymity of the individual providing the information and must specify that the entity will protect the reporting individual from Retaliation.

5. Each parish and school should develop a mechanism for monitoring compliance with and the effectiveness of this Policy.

III. Finance Councils Parishes **Effective Date: 07/1/99**
Revised: 07/1/06

STATEMENT OF POLICY

In each parish, there is to be established, according to the norms of Canon Law and the Particular Law of the Diocese, a parish Finance Council to assist the pastor who is the administrator of the goods of the parish. (C.537) Said Finance Council shall be operated under the provisions identified in Appendix II.

PROVISIONS

See Appendix II for a sample of the By-Laws that should govern a Finance Council.

IV. Finance Councils - Diocesan Schools **Effective date: 7/1/06**
Revised: 4/1/08

STATEMENT OF POLICY

In each school, there is to be established, according to the Norms of particular law, a School Finance Council to assist the Pastor and the Principal in the administration of the goods and finances of the school. The Parish Finance Council may serve in this role. (See Policy III)

PROVISIONS

1. Each school shall develop written guidelines and by-laws for the operations of the School Finance Council. Such guidelines/by-laws shall be submitted to the Pastor for approval. The approved guidelines/by-laws shall be distributed to the members of the Council.

2. The Council shall report to the Pastor of the School.

3. All members of the Council shall be appointed by the Pastor of the Parish. The members of the Council shall include no less than five and no more than ten members and shall include a representative from the school administration. All other members shall be appointed from among the Parish/School community, and all prospective members must have proven financial expertise.

4. The School Business Manager shall be required to attend all Council meetings and make financial presentations as required. The Business Manager, and all Council members, shall be familiar with all Financial Guidelines and Policies of the Diocese of St. Petersburg, as they apply to Diocesan schools.

5. Members shall be given three-year renewable terms of membership.

6. A Council Chair shall be appointed by the Pastor of the School.

7. The Council shall meet at least four times per fiscal year.

8. Minutes of all meetings shall be prepared on a timely basis, approved by the Council, and distributed to the Pastor, Principal, and all Council members.

9. The primary purpose of the Council shall be to recommend to the Pastor and the Principal the annual operating and capital budgets of the School and monitoring the actual financial performance of the School as compared to these approved budgets. Otherwise, the Council shall serve in an advisory role to the Pastor and the Principal in all financial matters.

IV-1 Financial Administration - Diocesan High Schools Effective Date: 4/1/08

STATEMENT OF POLICY

In addition to all the other policies, guidelines and best practices contained in this Manual, all Diocesan high schools shall be required to implement and adhere to certain other financial administration policies, procedures and practices, as listed in the following specific provisions.

PROVISIONS

1. Each high school shall be required to submit an annual financial governance certification letter within 120 days of the end of the fiscal year, signed by the administrator, the business manager/bookkeeper, and each member of the school finance council, in accordance with the Form provided in Appendix III-2

2. Each high school shall be required to complete and submit an annual internal control evaluation questionnaire within 120 days of the end of the fiscal year, signed by the administrator, the business manager/bookkeeper, and each member of the school finance council, in accordance with the Form provided in Appendix III-2

3. Each high school shall enter into and sign an Administrative Services Agreement with the Pastoral Center of the Diocese; such agreement shall include all of the financial and other administrative services provided to the school by the Diocese.

4. The Audit Committee of the Diocesan Finance Council shall issue minimum qualifications in the hiring of a business manager/bookkeeper, and such qualifications must be followed by the school administrator in the hiring of such manager. The Executive Director of Finance at the Pastoral Center, or his/her designee, shall be consulted in the hiring of all business managers/ bookkeepers.

5. The Business Manager/Bookkeeper of each high school shall report directly to the administrator of the school; however, each such manager shall also have a "dotted-line" reporting responsibility to the Manager of Diocesan Entity Accounting at the Pastoral Center with respect to accounting and financial reporting matters.

6. Each high school will use accounting and financial reporting systems and software that is recommended by the Finance Office of the Pastoral Center.

7. Each high school shall be required to budget and have performed an annual "Review" by an independent auditing firm that has been recommended by the Audit Committee of the Diocesan Finance Council and approved by the Board of Directors of the school. Such "Review" must be completed and a report issued to the Board of Directors of the school within 120 days of the end of the fiscal year, with a copy of the Review report sent directly to the Executive Director of Finance at the Pastoral Center. (This requirement is effective for the fiscal year ended 2012)

8. Within one year of the effective date of this Policy, each high school shall be required to adopt and implement the following policies in a form that is approved by the school finance council and the Board of Directors of each school:
   A. Fraud Policy
   B. Conflict of Interest Policy
   C. Whistleblower Policy
   D. Code of Conduct Policy

10. The members of the school finance council shall attend an annual financial training session at the Pastoral Center of the Diocese.

V. Financial Reporting **Effective Date: 7/1/99**
Revised: 1/1/01; 7/1/06; 4/1/08

STATEMENT OF POLICY

Church Canon #1287.1 requires both clerical and lay administrators to report to the Ordinary concerning their administration of any ecclesiastical goods assigned to their governance. Each parish and school is to develop an annual operating and capital budget which is to be submitted to the Diocesan Finance Office for each fiscal year which is to begin on July 1. A copy of all school budgets must also be submitted to the Office of Catholic Schools. Each parish and parochial, interparochial and ECC school shall also furnish quarterly financial reports of budget vs. actual activity, plus a statement of assets and liabilities, to the Diocesan Finance Office for the quarters ended September 30, December 31st, March 31st and June 30th, of the fiscal year. High schools and special schools must submit these same financial reports on a monthly basis. "Additional Annual Reporting" requirements are as specified below.

PROVISIONS

Budgets:

1. The annual budget must provide for all the known operational, debt service and capital improvement needs of the parish or school.
2. The annual budget must be balanced (support and revenue must equal or exceed total expenses). If it is not, a letter of explanation should be attached to the budget.
3. Each annual budget should provide a provision for unanticipated contingencies.
4. Each annual budget should provide a provision for estimated future property and building maintenance needs.
5. Pastor discretionary accounts should be included in the parish budget.
6. Subsidiary budgets must be submitted for all auxiliary activities that are reported "net of expenses" in the quarterly financial statements.
7. The budget, in a suitable format, should be reviewed by the Parish Finance Council; and recorded in minutes or other equivalent records.
8. All high school and special school budgets must be approved by the school's finance council. Evidence of such approval must be submitted with the budget.
9. All budgets shall be submitted to the Diocesan Finance Office and shall be due no later than 30 days prior to the start of the fiscal year.
10. In addition to the budget that is due 30 days prior to the start of the fiscal year, all schools must submit an "updated budget" by September 30th of each year that reflects the final enrollment of the school for that year.

Please refer to Appendix X for guidelines to be followed in the preparation of annual operating and capital budgets, and to Appendix XIII for the "Program Rates" that are effective for the fiscal year beginning July 1, 2011.

Financial Reports:

1. These reports must reflect all of the financial activity and all bank account balances of the parish or school, and their auxiliaries.
2. The reports must be signed by the Parish Pastor or Administrator, and, in the case of high schools and special schools, by the Principal.
3. These reports, in a suitable format, are to be presented to the Parish and School Finance Councils, and a record thereof made in the minutes of the Council meetings.
4. Accompanying details should be provided as necessary, or as requested by the Bishop or an authorized member of his staff.
5. All interim reports, and the final annual report, shall be submitted to the Diocesan Finance Office. Such reports shall be due within 45 days of the end of each reporting period; the final annual report shall be due within 60 days of the end of the fiscal year.

Additional Annual Reporting:

1. Each parish and mission shall be required to complete and submit an "annual certification concerning financial governance" to the Ordinary in a format specified by the Diocesan Finance Council, and in accordance with instructions issued by the Pastoral Center. (See Appendix III-1)
2. Each parish and mission shall be required to complete and submit an "annual internal control evaluation" to the Ordinary in a format specified by the Diocesan Finance Council, and in accordance with instructions issued by the Pastoral Center. (See Appendix III-1)
3. High Schools and other "Diocesan Entities" should refer to Policy IV-1 for additional provisions related to these additional annual reporting requirements. (See Appendix III-2)

V-1. DEBT **EFFECTIVE: 7/1/07**

CODE OF CANON LAW #1284-2.5:

ALL ADMINISTRATORS ARE BOUND TO FULFILL THEIR FUNCTION WITH THE DILIGENCE OF A GOOD HOUSEHOLDER. CONSEQUENTLY, THEY MUST PAY AT THE STATED TIME THE INTEREST DUE ON A LOAN OR MORTGAGE AND TAKE CARE THAT THE CAPITAL DEBT (PRINCIPAL) ITSELF IS PAID IN A TIMELY MANNER.

STATEMENT OF POLICY

Debt may not be incurred by any parish, school or ECC, except in the following circumstances:

1. An approved loan through the Diocesan Savings and Loan Fund Trust (see Policy #XII); or
2. An approved loan through the Diocesan "Direct-borrowing" agreement with approved banks; or
3. Approved credit with vendors or other creditors where the vendor payment terms are complied with, including credit card arrangements entered into in accordance with Diocesan Policy #VII, and such credit arrangements are in compliance with all other Diocesan Financial Guidelines and Policies.

Requests for permission to incur debt from sources 1. and 2. above must be made in writing to the Ordinary of the Diocese, with a copy of such request sent to the Vicar General, the Secretary for Administration, and the Executive Director of Finance.

Prior and continuing policies with respect to debts are:

- Debts attach to, and are the responsibility of the parish, school or ECC until all of such debt is repaid, or otherwise settled in accordance with the Provisions below.
- Debts of parochial and inter-parochial schools, and ECC's are the responsibility of the parish(es) that are responsible for the administration of the school or ECC.
- Extended payment terms for Diocesan Insurance or Employee Benefit Programs, as stated in Policy #XIV.

Debts existing as of the effective date of this Policy must be repaid in accordance with the repayment terms of the creditor. Such annual repayment amounts must be included in the annual budget of the parish, school or ECC. (See Policy #V)

Any violations of this Policy that result in the incurrence of unapproved debt must be corrected by the Administrator of the parish, school or ECC in a timely manner. In any event, the correction of the condition(s) that caused the violation of this Policy must be accomplished within six months of the violation. Satisfactory evidence of the corrections will be required on a case-by-case basis.

PROVISIONS

1. For purposes of this Policy, "Debt" shall be defined as any unpaid or unbudgeted financial obligation of the parish, school or ECC other than those exceptions listed in the Policy above.

2. The repayment terms of existing debts may be restructured upon a written request to the Ordinary of the Diocese, who shall seek the advice of the Diocesan Finance Council before any such restructured payment terms are approved. In the case of existing debts that are currently included in the Diocesan Savings and Loan Fund Trust, such requested restructurings must be approved by the Trustees' of that Trust.

3. Forgiveness of currently existing debt, in whole or in part, may be requested by writing to the Ordinary of the Diocese, with a copy of such request sent to the Vicar General, the Secretary for Administration and the Executive Director of Finance. All such requests will be reviewed by the Financial Planning Committee of the Diocesan Finance Council, for recommendation to the Diocesan Finance Council and the Ordinary. Any Forgiveness of such existing debts that are included in the Diocesan Savings and Loan Fund Trust must be approved by the Trustees' of this Trust.

   Among other requirements for Forgiveness that may be required of the parish, school or ECC, the entity may have to demonstrate over a minimum number of fiscal years, the ability to avoid the incurrence of unapproved debt in the future. Such ability may be demonstrated by the completion of at least three fiscal years of balance budgets, including remaining current with the payments of all obligations including those due to the Diocese, not including those debts for which Forgiveness is being sought. If the parish has a parish school, this requirement will extend to the school as well as the parish.

   Between the first fiscal year and the completion of the third fiscal year, and upon the recommendation of the Diocesan Finance Council to the Ordinary, a portion of the requested debt Forgiveness may be granted.

VI. Financial Reporting – Parishioners **Effective: 7/1/06**

STATEMENT OF POLICY

Church Canon #1287.2 requires all administrators to render an accounting to the faithful concerning the goods offered by the faithful to the Church. Such account(s) shall be in accordance with existing Particular Law. This Canon, and policy, is grounded in the spirit and principles of stewardship, financial accountability, transparency and effective leadership.

PROVISIONS

1. The form and content of these financial reports shall be determined by the Pastor in consultation with his Parish Finance Council. Such reports shall be rendered at least on an annual basis, and more often as necessary.

2. These financial reports shall contain sufficient information to communicate effectively the financial position and results of ministry activities (programs) for the period of the report. Such reports should also communicate how the parish is performing with respect to their annual budgets. Accompanying narratives, signed by the Pastor, should be provided to explain unusual or problem situations.

3. These reports shall be prepared and presented in accordance with reasonable accounting and other reporting practices as recommended by the Church. Cash basis, or modified-cash basis, reports are acceptable, but such method of presentation should be disclosed to the parishioners.

4. These reports shall reflect all assets and liabilities of the parish and shall be in a format that communicates to the parishioners the nature and amount of restricted and unrestricted net assets.

VII. Bank Accounts **Effective Date: 7/1/99**
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY:
For better management, supervision, accounting and utilization of financial resources, each parish and school shall maintain only one bank account through which all the financial transactions of the parish and parish organizations shall pass (Central bank account) except for the following auxiliary bank accounts:

- Mass stipend checking account, and
- Women's Guild checking account, and
- Men's Guild checking account, and
- Bingo checking account, and
- Parents Club, and
- Other auxiliary, fundraising or special accounts as recognized by the Diocese

No separately incorporated organization such as Knights of Columbus, St. Vincent de Paul Society, Girl Scouts shall maintain an account using the parish **or school** employer identification number (FEI). No bank accounts may be maintained in the name of any person.

PROVISIONS - GENERAL

1. Bank accounts may not be opened without the approval of the Pastor/Parochial Administrator or, in the case of a high school or special school, the Principal and the Treasurer of the School Corporation. The Finance Council should be informed of any changes in bank accounts, or any changes in the authorized signatories of such accounts.

2. All bank accounts must be in the name of the Parish or School, mailed to the Parish or School address, and be registered in the Federal ID# of the Parish or School.

3. The Pastor/Parochial Administrator must be the authorized signer on all bank accounts under his administrative authority; authorized signers cannot be added or deleted without the written authorization of the Pastor/Parochial Administrator. Business Managers/Bookkeepers may not be authorized signers.

4. Authorized signers on all bank accounts of high schools and special schools must include the Principal and the Treasurer of the School. Authorized signers may not be added or deleted without the approval of the Principal and the Treasurer of the School Corporation.

5. The Pastor or Principal must ensure that appropriate internal controls are implemented for deposits made, checks drawn and the handling of bank statements; this includes a monthly reconciliation of the bank balances to the book balances of each account.

PROVISIONS - CENTRAL BANK ACCOUNT

1. The central bank account shall be established and maintained with the Pastor and/or Principal as the primary authorized signatory and needs to have at least one additional signatory. Additional authorized signatories shall be limited to Pastors/Parochial Administrators, Parochial Vicars, and Assistant Principals. Incardinated permanent Deacons assigned to the parish may also be an authorized signatory in the parish of their assignment.

2. The parish and school Business Manager or Bookkeeper, if any, shall not be made an authorized signatory on any bank accounts.

3. The diocese is organized as a Corporation Sole whereby the Bishop holds title to all real property of the diocese, not individually but in a corporate capacity. Unlike statutorily approved not-for-profit corporations which consist of members, directors and officers, a Corporation Sole has one corporate officer, namely the Bishop. While parishes and schools have recognition under church law, they do not separately exist under Florida law, but are part of the Corporation Sole. Therefore, parishes and schools may not file a corporate resolution with a bank. Should such a resolution be required, please contact the Diocesan Finance Office.

4. Any single check in excess of $10,000 made payable to a payee other than the Diocese or the Pastoral Center shall require the signature of two signatories on the check. Facsimile signatures are prohibited. No signature stamps are allowed. If a second signatory is not available, a Diocesan priest at a nearby parish may be used for both parishes and schools.

5. Bank statements must be reconciled to the accounting records each month in a timely manner. The individual responsible for reconciling the account should receive the bank statement unopened (unless it has been opened by the Pastor/Parochial administrator or Principal). The actual reconciliation should be compared with the financial statements by the Finance Council at least annually.

6. Credit Cards - Only the Pastor, Parochial Vicar and school principal, with the authorization of the pastor, may use a credit card and such use is limited to exceptional circumstances. Pastors and Principals are to control the usage of credit cards, review all statements and maintain supporting documentation. Credit Limits on such cards should not exceed $10,000.

PROVISIONS - AUXILIARY BANK ACCOUNTS

1. Each auxiliary bank account's activity will be reported to the pastor **or principal** on a quarterly basis in a statement of revenue and expenditures. All receipts and disbursements will be adequately documented and accounted for.

2. The auxiliary bank accounts shall be established in the name of the parish **or school,** with the particular organization referenced, e.g., St. John Women's Guild or St. John Catholic Church - Women's Guild.

3. An auxiliary account shall be established and maintained with the Pastor or Principal as the primary authorized signatory. Additional authorized signatories, which shall be limited to any two, (excluding the business manager and/or bookkeeper) shall be chosen by the Pastor or Principal from the following:

   A. Pastoral Team Member
   B. Organization President or Treasurer

Two signatories shall be required on each check with one of the signatories being the Pastor/Parochial Vicar or the Principal.

4. Auxiliary accounts shall be subject to 2, 5 & 6 above pertaining to the Central Bank Account.

5. At the end of the fiscal year, financial and accounting records such as check stubs, paid and canceled checks, voided checks, bank statements, books of account, bills, invoices, etc. of each auxiliary organization shall be turned over to the parish or school finance office for permanent safekeeping.

VIII. Support and Revenue Income **Effective Date: 7/1/99**
Revised: 7/1/06

STATEMENT OF POLICY

All income earned, restricted to and/or received by the parish is considered parish income, and must be recorded on the parish books. All income earned, restricted to and/or received by the school is considered school income, and must be recorded on the schoolbooks. Income that is restricted by a donor must be recorded as restricted, and only used for the restricted purpose for which it was given.

The Pastor/Administrator or Principal is responsible for implementing appropriate internal controls over the recording, reporting, and handling of all income. Please consult Financial Policy #IX for more information about this Policy.

PROVISIONS – DONATIONS; OFFERTORY; BEQUESTS; AND TRUST PROCEEDS

1. The components of parish income are identified on the diocesan approved chart of general ledger accounts.

2. The following items shall pertain to the treatment of **parish** offertory, donations and bequests:

   A. The parish shall maintain on a calendar year basis a detailed list of contributions made by each parishioner. A detailed statement of annual contributions shall be made available to each contributing parishioner upon request. (It is recommended that an acknowledgment of all gifts be provided to each parishioner at the end of the year, no later than January 31st.)

   B. Bequests/donations shall be received free of any stipulation or requirement for any service or advantageous preferences to be performed/granted by the parish or the Diocese in behalf of the donor. (e.g., a donation may not be used for school tuition) **[See Policy #XIX]**

   C. Offertory collections/bequests or donations in the form of stock certificates, bonds, and real estate shall be treated as follows:

      i. Stock certificates or bonds shall be received, registered, or endorsed in the name of the Ordinary as the Corporation Sole. These shall be submitted to the Diocesan Finance Office which will liquidate the stock and make a deposit to the parish savings account for the liquidated amount.

      ii. Any donation of real property or an interest therein requires the written approval of the Bishop prior to acceptance of the gift. Real property shall be received and registered in the name of the Ordinary as the Corporation Sole. These shall be recorded as non-cash contribution at the time of receipt using the fair market value of the said real property. [**See Policy #XXIII]**

   D. Any single cash or non-cash donation which exceeds $250 must be acknowledged by the appropriate IRS required substantiation letter.

E. For non-cash donations appraised at $5,000 or more, you are required to file Form 8283 Donee Information Return, if you sell, exchange, transfer, or otherwise dispose of the non-cash, donated property within two years after the date that you originally received the donation. This Form must be filed with the IRS within 125 days of the date that you disposed of the property. The parish must also furnish a copy of the Form to the original donor.

F. All national and diocesan collections are to be remitted to the Diocesan Finance Office within 20 days following the date on which the collection is taken.

G. No priest of the Diocese or visiting missionary is to take up a collection personally during a liturgical celebration. No special collection by visiting priests, sisters, brothers or representative of Catholic projects may be taken without a letter of approval by the Bishop. Similarly, the pulpit is not to be used for any appeal for support, financial or otherwise, for any purpose other than a local parish project without the approval of the Bishop, and the granting of faculties of the Diocese.

H. "Building Fund" campaigns or collections may not be initiated without the written approval of the Ordinary, or his designee. (See Policy #XXV). The processing of pledges from capital or other campaigns must be performed by the Campaign Processing and Finance Offices of the Pastoral Center. If no loan will be required to complete the project for which the campaign funds are being solicited, an exception to this Policy may be requested of the Ordinary.

PROVISIONS – SCHOOL TUITION AND OTHER SCHOOL INCOME

1. All tuition and fee income for the entire school year must be recorded on the books of the school at the beginning of the school year, with an offsetting asset account for the receivable. Receipts, including scholarships, tuition assistance, grants, etc.) must be recorded to reduce the receivable, and the income must be recognized monthly during the fiscal year.

2. All tuition and fee income must be recorded "gross". Any allowances or bad debts must be recorded and reported separately as a "contra" account to the tuition and fees.

3. The principal of the school is responsible for ensuring that effective procedures are developed and implemented to insure the timely receipt of all tuition and fees, in accordance with agreed-upon payment policies.

4. All schools should insure that reported tuition and fees receivable always agrees to a detail record of such amounts owed, by student.

5. All tuition and fees received in advance of the school year to which they are applicable (Advance Tuition) must immediately be remitted to the Pastoral Center for deposit in an "Advance Tuition" savings account in the name of the school, in the Diocesan Savings & Loan Fund Trust.

6. All Provisions in the section above are applicable to all schools, in addition to parishes. (Provisions Offertory; Donations; Bequests; and Trusts Proceeds)

7. A careful distinction must be made between a donation to the Church, and the payment of tuition. The donation is deductible for income tax purposes by the donor, whereas the payment of tuition is not deductible by the donor. Please refer to Appendix XI for a

copy of the USCCB Diocesan Financial Issues Manual Chapter XIX, for a discussion of this issue.

PROVISIONS - RENTAL INCOME

1. **Leases**

   A. In order to validly lease property, the pastor or principal must receive the approval of the Bishop, or his designee. All leases of property must be reviewed by the Diocese Legal Counsel, Insurance Office and Real Estate Office.

   B. All leases of buildings, facilities and equipment which are not one-day rentals, shall be covered with an appropriate lease contract as prescribed and approved by the Diocesan Real Estate Department. A copy of the duly executed and signed lease contract shall be retained by the parish or school, one copy to the tenant and one copy on file with the Diocesan Real Estate Department.

   C. All lease agreements shall be signed by the Bishop of the Diocese, or his designee, since all Diocesan property is in his name. The Pastor, Principal or Finance Council President can not sign lease contracts.

   D. An appropriate record shall be kept of all payments made by each lessee.

2. **Special Events**

   A. The lease of properties for one-time special events such as parties, wedding receptions, etc. need not be covered by a lease contract. However, an application to use property shall be required from the prospective lessee. The application shall be duly signed by the applicant/lessee and approved by the pastor or principal.

   B. The applicable rental fee and a security deposit to cover possible damages or breakage to property shall be required in advance from the prospective lessee. The security deposit shall be returned to the lessee upon completion of the event but only after inspection of the rented property. If damages/breakage has been caused, the cost to repair and/or replace damaged property shall be taken from the security deposit or insurance proceeds.

   C. Parishes or Schools shall not rent property to those who are not parishioners, parish operating units/organizations, or parents for activities which are not parish or school sponsored such as wedding receptions, private parties, etc. unless the following requirements are met:

      -The lessee shall secure a Comprehensive General liability Insurance policy with a minimum of $100,000 per occurrence, $300,000 aggregate and $50,000 property damage coverage, or purchase an equivalent “Special Events” policy through the Diocesan Insurance Office.

      -The lessee shall execute a statement providing the date and time of occupancy or possession by the lessee of the premises.

PROVISIONS - MASS STIPENDS

1. The following provisions shall pertain to the treatment of Mass stipends.

2. The parish shall maintain a permanent and detailed record of all Mass offerings and the fulfillment of these offerings. The required record should include among others the date the stipend was received, the amount of the stipend and the date of fulfillment.

3. Upon receipt of an offering or a stipend for a Mass intention, the money shall be recorded as Unsaid Masses. Monies received for unfulfilled Masses shall be deposited in the auxiliary account for Mass stipends.

4. Mass stipends shall not be construed as parish income, but the parish shall hold these monies in trust for the individual priest.

5. The parish is responsible for including the amount of stipends on the appropriate tax form and furnishing same to the priest. Any questions concerning Diocesan Policy with respect to the amount of Mass Stipends should be referred to the Chancellor's Office at the Pastoral Center.

6. Mass stipend records shall be reviewed by the Deans.

IX.	**Cash Receipts and Cash Disbursements**	**Effective Date:**	**7/1/99**
		Revised:	**7/1/06**

STATEMENT OF POLICY:

The parish and school are required to implement and administer systems for the receipt of income and the disbursement of funds that include appropriate internal controls designed for the safeguard and proper use of all funds. The Internal Control Guidelines in Appendix III should be considered carefully in the design of such systems to ensure that basic control requirements are met.

PROVISIONS - CASH RECEIPTS

1. Cash receipts include cash and checks. The basic feature of the cash receipt system is to provide a segregation of duties between the actual handling/counting of cash receipts and the recording of receipts in the parish or school records.

2. For parishes, more than one person should receive and count the receipts from each Mass. In Appendix IV is an example of a system that should be implemented to handle offertory collections.

3. Parishes and schools must be responsible for recording all receipts in the appropriate accounting and subsidiary records. Subsidiary records include parishioner offertory records and student tuition and fee payment records.

PROVISIONS - CASH DISBURSEMENTS

1. All cash disbursements should be made with pre-numbered checks, with the exception of petty cash. No pre-signed checks are allowed.

2. If a mistake is made when preparing a check, it should be voided before preparing a new check, and the voided check should be altered to prevent its use. The voided check should be retained to make sure all pre-numbered checks are accounted for.

3. All disbursements should be properly documented including 1) a proper original invoice; 2) evidence that the goods or services were received; and 3) evidence that the purchase transaction was properly authorized.

4. All supporting documents should be canceled or marked "paid" once a disbursement is made to avoid double payments, along with the date and check number. All invoices, or other bills presented for payment, should be subjected to an internal approval process to insure the appropriateness of the payment.

5. All checks should be mailed promptly and directly to the payee. The person mailing the check should be independent of those requesting, writing and signing the check.

6. No checks may be made payable to "cash".

7. An imprest petty cash fund (not to exceed $500) with one custodian should be used. The imprest fund involves replenishing petty cash only when properly approved documentation are presented justifying all expenditures. Checks to replenish cash can only be made payable to the parish custodian (i.e., St. Jude Cathedral Parish/John Doe.)

X. Annual Pastoral Appeal (APA)

Effective Date: 7/1/99
Revised: 7/1/06

STATEMENT OF POLICY

Unless terminated or otherwise modified, the Diocese will conduct an Annual Pastoral Appeal in each parish in the Diocese. Every Parish in the Diocese will be assigned an Appeal Goal and will be required to participate in the Appeal. This annual appeal with be conducted in accordance with procedures issued by the Diocesan Offices of Finance, Stewardship and Campaign Processing, all as approved by the Bishop.

PROVISIONS

1. The purpose of the Appeal is to aid Parishes in the collection of funds necessary to pay their Assessment to the Diocese, such Assessment to be used to fund the programs and ministries conducted by the Pastoral Center of the Diocese, as contained in the annual budget of the Pastoral Center.

2. All Appeal funds will be collected and administered by the Diocesan Campaign Processing Office, in coordination with the Office of Stewardship. All funds will be credited to the Assessment of the parish as indicated by the donor of the funds.

3. Any funds collected above and beyond the amount of a Parish's Assessment will be returned to the parish via a credit to the parish's savings account in the Diocesan Savings & Loan Fund Trust.

4. Any shortfall in funds collected as compared to the Parish Assessment must be paid by the parish to the Diocese in accordance with terms and conditions approved by the Bishop and issued by the Finance Office. Any unpaid Assessment as of June 30 of the fiscal year to which the Assessment applies will be converted to an interest-bearing loan in the Diocesan Savings and Loan Fund Trust. Appeal funds received in subsequent Appeals will be credited first to this loan balance.

5. Donations received that are restricted for a ministry or other acceptable purpose that is not included in the programs or ministries of the Pastoral Center of the Diocese, will not be credited to the parish's assessment balance.

6. All parishes will receive from the Campaign Office, regular status reports of their individual campaign activities.

XI.	**Annual Parish Assessment**	**Effective:**	**7/1/99**
		Revised:	**7/1/06**

STATEMENT OF POLICY

Church Canon # 1263 states: "After the Bishop has heard the finance council and the presbyteral council, he has the right to impose a moderate tax for the needs of the diocese upon public juridic persons subject to his governance; this tax is to be proportionate to their income." Each year, an assessment will be imposed on all parishes in the Diocese to support the budgeted programs and ministries of the Diocese, as administered by the Pastoral Center. Such assessment will be moderate and will be assessed proportionate to the income of the parish as compared to the incomes of all parishes.

PROVISIONS

The Provisions related to the calculation of this Assessment are subject to change, based upon the provisions of Canon # 1263. At the present time, the following provisions apply to the calculation of the Assessment:

1. Having established the total amount of the assessment for the year, such total is allocated among all parishes based upon each parish's pro-rata share of the total "recurring offertory" of all parishes, less approved exemptions.

2. "Recurring offertory" is defined as those regular, recurring sources of income to the parish that can reasonably be expected to occur each year. Such income sources would include weekend offertory, weekday offertory, donations, etc. Income sources that would not be included would include National Collections, the proceeds of estates and trusts, building fund collections, etc.

3. Each parish shall receive a $50,000 exemption, to be deducted from their "recurring offertory" in the calculation of each parish's pro-rata share of the total assessments.

Effective with the assessments that are due for the fiscal year beginning July 1, 2006, parishes providing financial support to parochial schools, interparochial schools, and Diocesan high schools and special schools, will receive an exemption from "recurring offertory" in the assessment calculation in accordance with the following provisions:

1. The amount of the exemption shall be the lesser of the actual financial support to the school(s) or $100,000.

2. Financial support to a school shall be considered to be only funds that are actually transferred to the school(s), or expenses that are incurred on behalf of the school(s) that are necessary to balance the school's approved operating and capital budgets for the fiscal year. No excess funds may be accumulated in the school(s) operations as a result of financial support transferred from a parish.

3. Joint costs incurred on behalf of both the parish and the school(s) shall be allocated to the respective budgets of the parish and school(s) based upon the pro-rata share of benefit received by the parish and school(s). In the case of personnel costs, the pro-rata allocation shall be based upon time incurred. In the case of other expenses, the pro-rata allocation between the parish and the school(s) must be performed using objective allocation factors that consider the benefit derived from the expense by each entity.

4. All financial support to schools must be reported on the quarterly and annual financial reports in the accounts designated for reporting such transactions. (i.e., “Transfer to Schools” and “Parish Support Income”) These accounts must include only all cash transfers made to the schools, and entries for Joint Costs discussed in 3. above. What is reported as financial support to school(s) on a parish’s financial report must agree with what is reported on the school(s) financial reports as Parish Support Income.

Effective with the assessments that are due for the fiscal year beginning July 1, 2010, exemptions from “recurring offertory” shall also include reductions of parish debt, in accordance with certain restrictions.

XII. Diocesan Savings & Loan Fund Trust **Effective Date: 7/1/99**
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY

The Diocesan Savings and Loan Trust is a mutually supportive Trust fund operated by the Pastoral Center for the benefit of all Diocesan entities, including the Pastoral Center. This Trust receives funds from such entities, invests available funds, and grants loans to such entities, all for the mutual benefit of conducting the ministries in the Diocese. The Trust is governed by a Trust Agreement, and the Trust Agreement is administered by a group of priest and lay trustees, in accordance with policies and procedures established by the Trustees. All "surplus funds" of all Diocesan entities must be on deposit in this Trust Fund. Parishes, schools and other Diocesan entities may not invest in other investment accounts, nor borrow funds from other sources.

*Operational Surplus Funds are defined as those funds over and above what is required to meet 30 days of cash requirements.

PROVISIONS - LOANS

1. Loans can be made only upon the approval of the Trustees, and upon terms approved by such Trustees.

2. Periodic interest rates and other policies of the Trust are set by the Trustees, in consultation with the Diocesan Finance Council, and other consultative bodies of the Diocese.

3. Approved loans will require the Pastor or Principal to sign a promissory note to the Trust with an amortization period that requires monthly principal and interest payments.

4. A parish or school must be in compliance with all other Diocesan financial policies, and "current" with all other financial obligations in order to be considered for a loan.

PROVISIONS - SAVINGS

1. Periodic interest rates paid, and other policies are set by the Trustees in consultation with the Diocesan Finance Council, and other consultative bodies of the Diocese.

2. Parishes and schools shall have access to funds on deposit in the Fund on a daily basis.

3. Funds subject to a donor-imposed restriction must be separated from unrestricted funds and withdrawn only for use in satisfying that restriction.

XII.1 Diocesan Savings & Loan Fund Trust Loan Moratorium **Effective Date: 11/18/2008**
POLICY CANCELLED EFFECTIVE 10/1/2011

Policy Statement:

Based upon the recommendations of the Diocesan Financial Planning Committee and the Diocesan Investment Committee, the Trustees of the Savings and Loan Fund Trust have approved a Policy placing a moratorium on new loans from the Trust, subject to the following Provisions.

Provisions:

All Construction or Improvement Projects Loans:

Projects already underway, with approved loans may continue to completion. The total amount of previously approved loans may not be increased.

Projects with 100% cash on hand in the Trust may be approved through the normal processes of Diocesan Offices, including the Bishop's Office. Pledges of donations pursuant to a capital or other campaign will not be considered as "cash-on-hand", therefore will not be considered in meeting the "100%" requirement.

Parishes are encouraged to continue their planning processes for the addition and improvement of their facilities to the extent that cash is on deposit in the Trust to pay all associated costs. Loans will not be provided for planning purposes.

All Operating Loans:

Loans for operating expenses will no longer to be approved except in rare circumstances, involving emergency circumstances only. Any such loans would require strict and rapid repayment provisions, as approved in accordance with policies established by the Trustees. For purposes of this Provision, operating expenses include all day-to-day operating costs of the parish or school, including all personnel costs.

Duration of Policy:

This Policy shall remain in effect until further notice. The Trustees will review this Policy and its' Provisions on a quarterly basis.

XIII. Insurance and Employee Benefits Programs (Insurance and Employee Benefits Trusts)

Effective Date: 7/1/99
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY

As is Particular Norm in most dioceses in the United States, our Diocese has established insurance and employee benefits programs for all Diocesan parishes and schools. These Programs are governed by a separate Trust, under the fiduciary responsibility of a Board of Trustees. The purpose of these programs is to provide comprehensive and consistent insurance coverage to all Diocesan entities, and group benefits that are reasonable and consistent to all employees of Diocesan entities.

All of these Programs are operated in accordance with Plan Documents or a Contract of Insurance that relate to each Program. In all questions of administration, these Plan Documents/Contracts are the governing documents.

The Diocesan Pension Plan, "Pension Plan for the Employees of the Entities of the Diocese of St. Petersburg", is governed by an individual Trust and Board of Trustees, and is administered by Gabriel, Roeder, Smith and Company, of Ft. Lauderdale, FL. All other insurance and employee benefit programs are governed by a separate Trust and Board of Trustees, and are administered by the Finance, Human Resources, and Insurance Offices of the Pastoral Center.

PROVISIONS

As stated above in the Statement of Policy, each of these Programs is administered in accordance with a Plan Document or Contract of Insurance for each Program. However, please note the following supplemental provisions that constitute Diocesan Policy:

The Programs:

The following types of insurance coverage and employee benefits are provided to qualified entities and employees of the Diocese. **Participation by all entities in these Programs is mandatory.**

Property Insurance
Liability Insurance
Worker's Compensation
Unemployment Compensation
Group Life Insurance
Group Long-term Disability Insurance (Lay personnel only)
Group Health Insurance
Student Accident Insurance
Auto Insurance (Diocesan Vehicles Only)
Optional Contributory Life Insurance
Optional Contributory Short-term Disability Insurance
Special Events Insurance
Defined-benefit Pension Plan (Non-contributory)
401K Plan (Contributory; No employer match)

The employee "eligibility for participation requirements" for each of these Programs is contained in each Program's Plan Document. These requirements are not the same for each Program, therefore, parish and school administrators must consult these Documents to determine the eligibility of each employee.

These Programs are funded by premiums paid by all Diocesan entities. Each entity receives a billing for such premiums for each Program. These billings must be paid in accordance with the payment terms and instructions that are contained on the billings.

Any unpaid premiums as of June 30 of each year will be converted into an interest-bearing loan in the Savings & Loan Fund Trust, and the entity is required to repay the loan to the Savings & Loan Fund Trust in accordance with repayment terms established by the Trustees of that Trust. Please consult Policy #XIV for the details of this repayment Policy.

The above loan policy with respect to unpaid premiums does not apply to employee contributions to these Programs that are withheld from the employees pay, or otherwise collected from the employee by the employee's employer. These employee contributions must be remitted to the particular Program on a timely-basis as specified by Law.

Pension Plan:

Each year in February, the Plan Administrator sends an Annual Census Report to each entity for completion and return to the Plan Administrator. By March 1st of each year, a copy of this completed Report, plus all enclosures, must be sent to the Insurance Office at the Pastoral Center marked "Confidential". The information contained in this report is used in the administration of other Programs besides the Pension Plan.

Each year in April, the Plan Administrator sends each entity a "Personalized Employee Benefit Statement" for each employee in the entity that is a participant in the Pension Plan. The participant employee must receive the original of this Statement, and a copy should be placed in the employee's personnel file.

Claims for each of the Programs must be handled in accordance with instructions received from the Pastoral Center Insurance Office with respect to each Program. Unemployment Compensation claims must be administered by the Human Resources Office at the Pastoral Center.

With respect to the termination of any employee for cause, the provisions of our Liability Insurance Policy requires that all entities contact and consult with either the Executive Director of Human Resources at the Pastoral Center, or our Diocesan Legal Counsel, DiVito & Higham, P.A.. In the event that an entity does not comply with this insurance requirement, resulting in a Wrongful Termination claim by the employee, insurance coverage to the entity will be denied.

All Parish vehicles that are purchased must be titled as: "Diocese of St. Petersburg"**, or** "Diocese of St. Petersburg and ________________(parish name)". All titles must be forwarded to the Insurance Office.

Hours worked of "employees" working in multiple-Diocesan locations must be aggregated for purposes of determining benefit and insurance plan participation. The cost of Plan participation, if applicable, must be allocated pro-rata to the Diocesan entities based on hours worked among the multiple locations.

XIV. Policies for the Non-Payment of Premiums **Effective Date: 7/1/99**
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY

Financial Policy #XIII, Insurance and Employee Benefits' Trusts refers to situations in which premiums due to these Programs are not paid, requiring the entity to finance the premiums with a loan in the Diocesan Savings & Loan Trust Fund. Such unpaid premiums will be subject to financing in accordance with the following Provisions.

Health, Group Life, and Long-term Disability Premiums

Effective at June 30, 2006, any parish or school that has six months or more of unpaid premiums outstanding in any of these programs will be required to finance the total amount of the unpaid premiums with a loan in the Diocesan Savings & Loan Trust Fund, at the then prevailing interest rate, and any subsequent changes to such rate. Such loan must be amortized and repaid over a period not to exceed three years. Such debt payments must be included in the entity's annual budget along with all current year premiums for these employee benefit programs.

Parishes or schools that have more than twelve months of unpaid premiums outstanding will be permitted to amortize and repay the loan over a period not to exceed five years.

Property, Liability, Vehicles, Workers' Compensation and Unemployment Compensation Premiums

Effective at June 30, 2006, any parish or school that has six months or more of unpaid premiums outstanding in any of these programs will be required to finance the total amount of the unpaid premiums with a loan in the Diocesan Saving & Loan Trust Fund, at the then prevailing interest rate, and any subsequent changes to such rate. Such loan must be amortized and repaid over a period not to exceed three years. Such debt payments must be included in the entity's annual budget, along with all current year premiums for these insurance programs. In addition, the following benefit reductions will be instituted:

1. For all Property damage claims, other than "Named Storms" and "Flood Damage", the $10,000 that is currently paid by the Diocesan Trust will not be applied to the claims costs, but to the entities unpaid premiums, and
2. Any and all liability claims incurred by the entity will be subject to a $10,000 deductible which will be applied to the entity's unpaid premiums. The aggregate total of any benefit reductions under this Policy shall not exceed the total amount of the unpaid premiums that are six months or more in arrears.

Pension Plan Premiums

These premiums are billed by, and payable monthly to, the Plan Administrator, Gabriel, Roeder and Smith. Any unpaid premiums as of the end of the fiscal year (June 30th) must be paid through a loan in the Diocesan Saving & Loan Trust Fund, at the then prevailing interest rate, and any subsequent changes to such rate. Such loan must be repaid within one year, and the debt payments must be budgeted in the entity's annual budget, along with the current year's premiums due to the Pension Plan.

Loan Approval

In accordance with Policy XII, the Diocesan Savings & Loan Fund Trust is governed by a Board of Trustees. Such Trustees have the power to approve or disapprove loans made by this Trust. If a loan is required in accordance with the above Policy, and such loan is not approved by the Trustees of the Savings & Loan Fund Trust, the loan and the interest charges on such loan will be carried and administered in the Insurance and Employee Benefits Funds Trust. The borrowing entity's liability for the loan will be to this latter Trust.

XV. Payroll and Personnel **Effective Date: 7/1/99**
Revised: 7/1/06 & 1/1/08

STATEMENT OF POLICY

All Diocesan entities are required to comply with all Church, Diocesan and Civil laws and statutes with respect to the employment of all personnel. This involves compensation paid and reported, payroll taxes withheld and remitted, participation in Diocesan employee benefit and insurance plans, and compliance with personnel management policies of the entity and the Diocesan. All Diocese entities must specifically comply with the provisions of the Fair Labor Standards Act (1938), along with revisions published in 2004. All Diocesan entities must also comply with the provisions of the Equal Pay Act of 1963. As a Church organization, the Diocese and its' entities are not required to participate in COBRA as part of our Health Insurance Program, nor are we required to participate in FMLA. However, the Diocese has voluntarily elected to comply with FMLA.

Effective October 1, 2010, all Diocesan entities must participate in the Diocesan Common Payroll system administered by the Human Resources Office at the Pastoral Center.

PROVISIONS

1. A proper determination of what constitutes an "employee" under Internal Revenue Service guidelines must be made. Personnel meeting these guidelines must be paid wages, taxes must be withheld and remitted, and wage and tax reporting made on Form W-2. Those not meeting these "employee" guidelines may be treated as "independent contractors". Attached in Appendix V is a copy of Chapter VI of the USCCB publication, Diocese Financial Issues, entitled Compensation of Lay Employees of the Church: Employee or Independent Contractor?, which provides guidance in these areas.

2. Diocesan priests are considered to be "employees" for Federal income tax purposes, but are considered to be "self-employed" (independent contractors) for Social Security tax purposes. As a result, FICA taxes will not be withheld. Therefore, required taxable wages must be reported on Form W-2. Although income tax withholdings are not required, they may be withheld and remitted if requested by the priest. Attached in Appendix VI is a copy of Chapter III of the USCCB publication, Diocese Financial Issues, entitled Compensation of Priests and the Dual Status of Priests: Employees for Income Tax Purposes, Self-Employed for Social Security Tax, which provides guidance in these areas.

3. Women Religious personnel must be compensated in accordance with the annual guidance provided by the Chancellor's Office. All such compensation should be remitted directly to the Religious Order, or jointly to the Order and the Religious. Income tax withholding and reporting is not required under this system of compensation. Attached in Appendix VII is a copy of Chapter V of the USCCB publication, Diocese Financial Issues, entitled Compensation of Religious, which provides guidance in these areas for both Men and Women Religious.

4. Transitional Deacons and Permanent Deacons receiving any remuneration from a Diocese entity must be compensated on the same basis as Lay employees. Please refer above to 1. above. This Policy is effective beginning January 1, 2008.

5. All "employees," priests and religious personnel must be included in all benefit and insurance plans of the Diocese in accordance with the participation requirements of each Plan. Non-employees and independent contractors may not participate in such Plans.

Attached in Appendix VIII is a copy of the Employee Registration Form, and Employee Change Status Form, that must be completed and submitted for all employees of Diocesan entities, and any subsequent status changes.

6. Hours worked of “employees” working in multiple-Diocesan locations must be aggregated for purposes of determining benefit and insurance plan participation. The cost of Plan participation, if applicable, must be allocated pro-rata to the Diocesan entities based on hours worked among the multiple-locations.

7. Each Diocesan entity should develop and keep current an Employee Compensation and Benefits Manual that includes all personnel policies of the entity. Such Manual shall be provided to each employee.

8. Each Diocesan entity is responsible for the timing filing of all necessary payroll tax returns, and the timely remittance of all required payroll and payroll related taxes.

9. “Salary Scales” for any personnel that are provided to parishes or schools by Offices of the Pastoral Center are only recommended salaries. Such scales are prepared based upon various considerations including information from governmental and professional association, and local market conditions. In addition to these scales, parishes and schools must consider other factors in setting salaries, including budgetary restrictions, internal personnel equity matters, rates of inflation in their county, merit, performance, among others. Each year, on or before July 1st, all schools should report to the Superintendent of Catholic Schools the actual salary scales that have been adopted by the school.

XVI. Payment of Taxes **Effective Date: 7/1/99**
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY

All Diocesan entities are responsible for the timely remittance of all required federal, state, and local tax obligations, and the timely filing of associated tax forms.

PROVISIONS

FEDERAL TAX OBLIGATIONS:

1. FEIN number: Each entity, whether or not it has employees, is to obtain a federal employer identification number by filing the SS-4, Application for Employer Identification Number.

2. Tax exemption: All entities and organizations listed in the Official Catholic Directory are exempt from federal income taxes on income under Internal Revenue Code Section 501(c)(3). They are eligible to receive tax deductible contributions as evidenced by a group letter ruling.

3. Tax on unrelated business activities: Income from unrelated business activities such as advertising and sale of merchandise, are subject to normal business taxes. Any question regarding liability for the Unrelated Business Income Tax is to be referred to the Diocesan Finance Office.

   Any church that has gross receipts of or more from the conduct of any unrelated trade or business is required to File Form 990-T, Exempt Organization Business income Tax Return. This form is due the 15th day of the fifth month following the end of the church's tax year. **(See Appendix IX for further information)**

4. Payroll taxes: Every lay employee is subject to mandatory payroll tax deductions which may not be waived by the employer. Social Security taxes must be withheld on each employee's earnings in accordance with the rates and limits set by the Federal Government. The amount withheld from the employees must be matched by the employer and both must be remitted to the Federal Government. The IRS does not allow payment to an employee in cash. A W-2 must be furnished to each employee at the end of the calendar year.

   The parish is required to file a Form 1099-MISC for each unincorporated individual (Non-Employee) or entity to whom it pays an aggregate of $600 or more in any calendar year to report:

   A. gross rents
   B. commissions, fees or other compensation paid to non-employees;
   C. prizes and awards, and,
   D. other fixed and determinable gains.

A copy of the 1099 must also be sent to the taxpayer who received the income.

NOTE: Some benefits provided to employees such as housing or transportation are considered as compensation to the employee and must be included on the W-2 form at their fair market value.

5. Gambling taxes: an organization that conducts gambling activities is required to report gambling winnings on Form W-2G if it pays out either of the following:

   A. $600 or more from a wagering transaction. If the winnings exceed $5,000, then they are also subject to the regular gambling withholding, which is applied at a rate of 28% to the total amount of the winnings less the amount wagered. For example, a church sells raffle tickets for $2 per ticket with a first place prize of a car that has a fair market value of $10,000 and a second place prize of $1,500 in cash. Because these prizes combined have a value exceeding $5,000, the church is required to report the total winnings on a form W-2G to each winner and withhold 20% of $9,998 ($10,000-$2) and 20% of $1,498 ($1,500-$2), respectively.

   B. $1,200 or more of gambling winnings from bingo. However, these winnings are not subject to regular gambling withholding.

NOTE: The cost of the raffle ticket and other wagers are not tax deductible donations.

STATE AND LOCAL TAX OBLIGATIONS

1) Sales Tax Exemption number: Each Diocesan entity (e.g. parish, school, etc.) is to obtain a state sales tax exemption number (Consumer Certificate of Exemption) by applying to the Florida Catholic Conference. The state sales tax exemption number is renewable every three years and should be coordinated through the Diocesan Finance Office.

2) Real Property Taxes: Real property that is predominantly used for charitable or religious purposes is exempt from real property taxes. Property which is vacant or not used for charitable or religious purposes may not be exempt from taxation. The entity may be responsible for various special assessments. Any questions regarding parish responsibility for real property taxes/assessments should be referred to the Diocesan Real Estate Department.

3) Licenses and Permits: Churches are not exempt from the payment of most licenses, permits and fees, e.g. automobile license plates, inspection fees, building permits, etc. Pastors and Principals are to be sure that all state laws are followed with particular care to bingo, raffles, liquor and/or solicitation laws.

4) State Sales Tax: All churches, rectories, convents and schools are generally exempt from state sales tax (as distinct from excise taxes which must be paid). No sales tax should be charged on a utility bill and a claim for a refund may be made if paid in the past.

   Although Florida authorizes churches to purchase tangible personal property for church use and consumption without application of the sales tax, there is no exemption allowed when tangible personal property is purchased for resale purposes (e.g. fundraisers), unless the purchaser is licensed as a retailer for the purpose of paying tax on the receipts derived from the subsequent resale. Entities that rent property to commercial users must collect and remit sales tax on the rental income. No separately incorporated organization can use an entity's sales tax exemption.

XVII: Parish Subsidy to Schools **Effective Date: 7/1/99**
Revised: 1/1/01

STATEMENT OF POLICY

Any school which serves students whose parents reside in parishes other than the parish directly responsible for said school shall be entitled to a subsidy by parishes served. This subsidy shall be in addition to tuition charges to such students.

The above subsidy, which shall represent a pro-rata share of the operational deficit which is properly attributable to those students who originate from the sending parishes, shall be based on ability to pay and such other considerations as may be deemed proper by the parish school board.

This policy is based on the presupposition that parishioners send their children to their own school, when such exists and where room is available. Therefore, implementation of this policy calls for the establishment of some equality in tuition rates and educational costs among the parochial schools.

PROVISIONS-INTERPAROCHIAL SCHOOLS

The same subsidy per student is paid by both the participating and non-participating ("feeder and non-feeder") parishes sending students to an interparochial school.

PROVISIONS-PARISH SCHOOLS

The same subsidy per student is paid by both the parish and by other parishes sending students to that school.

OTHER PROVISIONS

1. The school administrator shall determine that prior to assigning a tuition rate for an individual family, a completed Parish Verification Form is on file for a student whose family is seeking parish subsidy. For a practicing and supporting Catholic family, the appropriate Catholic rate of tuition is to be granted. The form must be signed by the Pastor.

   When a completed Parish Verification Form is not on file for a student with the school, the appropriate non-affiliate rate of tuition is to be assigned until such time (and on when) a Parish Verification Form is properly provided.

2. Moreover, in the case of a parish which has its own school or is in a participating agreement with an interparochial school, families who are practicing and supporting parishioners must be given the appropriate subsidy in another school if there are no openings in their own parish or interparochial school for their children at the required grade levels.

XVIII: Missionary Cooperative Program and National Collections **Effective Date: 7/1/99**
Revised: 7/1/06

STATEMENT OF POLICY

The Diocese believes that Catholic institutions with a need for financial resources should be given an opportunity to petition Catholic institutions with greater financial resources for financial assistance to accomplish their ministries. The Diocese has a Missionary Cooperative Program that is designed to provide this opportunity. All Parishes of the Diocese are required to participate in this Program, which is administered by the Propagation of the Faith Office at the Pastoral Center.

In order to aid and assist the ministries of the World Church, certain National Collections are to be taken in the parishes of the Diocese. These collections and their dates will be communicated to all parishes by the Propagation of the Faith Office at the Pastoral Center.

PROVISIONS

1. Guidelines issued by the Propagation of the Faith Office must be followed for this Program.

2. Generally, as part of this Program, most parishes are assigned a "preacher" for an annual mission appeal, while parishes who are to be recipients of mission funds will not be assigned a preacher.

3. All funds collected from mission appeals must be aggregated and remitted in a check to the Pastoral Center Finance Office no later than 20 days after the appeal. The funds will be forwarded to the mission upon receipt.

4. The proceeds from National Collections are to be remitted to the Finance Office of the Pastoral Center no later than 20 days after the Collections are taken.

STATEMENT OF POLICY

In accordance with Canon Law (see #1300, 1301, 1302 and 1304 in Appendix I), the Ordinary of the Diocese is the executor of all pious gifts, whether testamentary or lifetime. Receipt and acceptance of all such gifts must be approved by the Ordinary. Administrative coordination of all Wills, Estates, and Trusts will be handled through the Diocesan Finance Office in consultation with the Diocesan Attorney.

Upon preparation, all original, signed Wills and Trust Agreements of Priests must be forwarded to the Chancellor at the Pastoral Center for filing in the Diocesan archives.

PROVISIONS

1. All entities should contact the Diocesan Finance Office immediately upon notification that the entity is a beneficiary of any Will or Trust.

2. The Diocesan Finance Office will work closely with the entity in the coordination of the administration of the Estate or Trust. The entity should provide all documents to the Finance Office, and the Finance Office will similarly provide the entity with a copy of all documents.

3. No Estate or Trust documents should be signed without the review and concurrence of the Pastor, Principal and/or the Ordinary, or his designees.

4. In all Estates and Trusts where the Diocese or any of its entities are beneficiaries, the document should read at follows: "Robert N. Lynch, Bishop of the Diocese of St. Petersburg, or his successors in office, a Corporation Sole, for the benefit of __________(entity)." In the case of Diocesan entities that are separately incorporated, the name of the corporation should be used in place of the above.

5. Bequests/gifts subject to any stipulation or advantageous preference to be performed or granted by the entity or the Diocese in behalf of the donor shall not be acknowledged as a gift.

6. Bequests/gifts that are restricted by the donor for a specific entity usage must be accounted for separately, and the entity must maintain subsequent documentation that the funds were used for the restricted purpose.

XX. Parish Financial Review **Effective Date: 7/1/99**
Revised Date: 7/1/06

STATEMENT OF POLICY

Each parish shall have an **"Agreed-upon Procedures**" visit once every three years for the purpose of reviewing and evaluating the parish's financial policies and procedures. Such visits shall also be conducted following a change of pastor, or upon the request of the pastor, or upon the recommendation of the Bishop.

PROVISIONS

1. As used herein, the term **"Agreed-upon Procedures**" is not a financial audit as defined by the American Institute of Certified Public Accountants**.** It is a series of agreed-upon financial review procedures performed by a Diocesan accountant or Diocesan approved external accountant.

2. The Diocesan Finance Office shall provide the pastor and parish finance council with 30 days written notice of an intended financial visit.

3. The scope and final approval of the financial review report shall be the responsibility of the Diocesan Bishop.

4. The parish shall pay the cost of the financial review.

5. In accord with Canon 1283 2-3, as soon as a priest is appointed pastor, he is to prepare, sign and subsequently renew an accurate and detailed inventory of immovable goods, moveable goods, either precious or of significant cultural value, or other goods along with a description and appraisal of them. One copy of this inventory is to be kept in the archives of the parish and the other is to be sent to the Diocesan Pastoral Center. These records should be annually updated.

XXI. Capital Expenditures- Approval Requirements

Effective Date: 7/1/99
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY

Diocesan entities may spend a maximum of $40,000 on a given capital project, provided that such project is financed through internally raised funds and/or with parish funds kept with the Savings and Loan Fund Trust. If any project is to be financed with borrowed funds, authorization must be obtained in accordance with the provisions of this policy.

Any capital expenditure or series of expenditures for a single purpose, the total cost of which will exceed $40,000 must be approved by the Bishop. This includes ancillary contracts for the purchase of goods or services related to a construction project that are not included in the contract with the general contractor. (e.g. organ, altar, bell, etc.)

PROVISIONS

1. Approval of the capital improvements/expenditures shall cover the total project cost regardless of the length of time required to complete it. Therefore, approval need not be secured from year to year on previously approved projects provided the approved amounts are not exceeded. Project approval must be received in writing from the Secretary of Administration of the Pastoral Center, and must include an approved budget for the entire project. This approval may be subject to the approval of the Diocesan Finance Council, and the recommendation of the Diocesan Building Commission.

2. Once a project budget is established, such budget must be adhered to. Subsequent to the project approval, this budget must be monitored against actual expenditures of the project. If a possible budget overrun is identified, the Executive Director of Construction at the Pastoral Center must be notified immediately. Any revisions to the original approved project budget shall require the prior written approval of the Secretary of Administration of the Pastoral Center.

3. Any capital expenditure relating to the improvement or purchase of real estate is additionally subject to the policy and provisions addressing real estate and the financial policy and provisions relating to real property. (See Policy XXIII)

4. Please see Policy #XXV for additional policy concerning Building, Renovation and Repair Projects.

XXII. Contracts **Effective Date: 7/1/99**
Revised Date: 7/01/06

STATEMENT OF POLICY

In conjunction with the Ordinary Administration of a parish or a school, the pastor is authorized to enter into a contract that binds the parish/school assets, subject to the Provisions below, and this authority may not be delegated to another except in the pastor's absence. In the case of a Diocesan school for which there is no assigned Pastor, the Principal shall assume these contract signing duties, subject to the approval of the Corporation's Board of Directors. Any contract with a vendor (except related to business equipment) may not exceed a term of one year and must be terminable on 60 days written notice by either party without cause. Any contract with an employee shall not exceed a term of one year. Any exception to this policy must be approved by the Ordinary in writing.

This Policy does not apply to Acts of Extraordinary Administration as discussed in Policy # I.

PROVISIONS

1. All financial commitments resulting from contracts must be included in the approved budget of the entity.

2. Any contract or series of related contracts that obligate the parish or school for a sum of money in excess of $40,000 must be approved in advance by the Bishop, or his designee, in accordance with procedures approved by the Bishop. Such approval may require the approval of the Diocesan attorney.

3. Contracts with vendors (except for office equipment) should not be long-term contracts, and should always contain a termination clause.

4. Except for pre-approved contract forms for educational personnel, all other employee contracts in any amount must be approved in advance by the Executive Director of Human Resources at the Pastoral Center.

5. Contracts with service companies are subject to additional insurance obligations identified in Policy XIII on the self-insurance program.

6. Contractors should provide written evidence of the existence of their insurance with respect to Workers' Compensation for their employees, and liability coverage for their business.

XXIII: Real Property (Real Estate) **Effective Date: 7/1/99**
Revised: 1/1/01 & 7/1/06

STATEMENT OF POLICY

As a Corporation Sole, only the Bishop can agree to buy, sell, lease, mortgage or encumber real property of the Corporation Sole. Property in the name of a Diocesan Corporation must be administered in accordance with the Articles of Incorporation and the ByLaws of that Corporation. Irrespective, all real estate matters must be approved by the Bishop of the Diocese.

PROVISIONS-GENERAL

A Diocesan Realty Board and the Finance Council assist the Bishop in real estate matters.

The Diocesan Real Estate Office should be contacted promptly regarding any matter affecting real estate (e.g. zoning change, development of neighboring property, leasing of property for summer camp, bequest of real estate, etc.) So that they can ensure that the matter is handled in accord with Diocesan guidelines.

PROVISIONS-SALE OF REAL ESTATE OR INTEREST THEREIN

The following requirements shall be followed when an entity wants to sell real estate:

A. Permission of the Ordinary of the Diocese is required and may be arranged through the Diocesan Real Estate Office.

B. The Diocese will arrange for a title commitment.

C. The entity should consider legitimate offers only as presented by the buyer in contract form.

D. The deed or land contract must be submitted in triplicate to the Real Estate Office for review and signature by the Bishop/or attorney in fact.

E. The deed or land contract is given to the buyer upon receipt of a certified check.

F. The entity is to pay what are generally regarded as seller's expenses including documentary stamps, cost of title insurance and broker's commission.

G. Following the closing, the Real Estate Office should promptly receive the following:

   Check for proceeds
   Closing Statement
   Copy of recorded deed to purchaser (showing purchaser's address)
   Original promissory note and recorded mortgage (if not a cash transaction.)

The Real Estate Office will promptly notify the Insurance Office at the Pastoral Center of all such closings.

PROVISIONS-PURCHASE OF REAL ESTATE

The following provisions shall be followed when an entity wants to purchase real estate:

A. The permission of the Ordinary is required and may be arranged through the Real Estate Office.

B. Seller should furnish a survey at seller's expenses, or pay for a recertification of an existing survey to reveal any possible changes or encroachments on the land. Seller should also furnish an updated abstract or a title policy from an insurance company acceptable to the Diocesan attorney.

C. Broker's fees for both the selling and purchasing broker are to be the responsibility of the seller.

D. An offer to Purchase must be signed by the Bishop, or his designee.

E. The Diocesan attorney will examine the abstract or title policy and give a written opinion that the seller can give good marketable title, free of any encumbrances, and that the existing zoning will not prevent the use of the property for the purpose it is being purchased.

F. Unless there is a separate Diocesan Corporation, title to the property is always in the name of "Robert N. Lynch, Bishop of the Diocese of St. Petersburg, or his successors in office, a Corporation Sole." The address on the deed should be P.O. Box 40200, St. Petersburg, FL 33743.

G. When the contract is accepted, it should be submitted in triplicate to the Real Estate Office for review and signature by the Bishop or attorney in fact. The title insurance commitment and closing statement with the necessary funds or a request for the funds to close should be submitted to the Real Estate Office sufficiently in advance to allow the transfer of funds and the execution of the necessary documents by the Bishop.

H. Following the closing, copies of the following documents should be promptly forwarded to the Real Estate Office:

Recorded Deed
Title Insurance Policy
Survey
Appraisal
Copy of Note and Mortgage (if not an all-cash transaction)

PROVISIONS - DONATIONS OF REAL ESTATE

Any donation or bequest of real property or an interest therein requires the explicit, written approval of the Ordinary prior to acceptance of the gift.

XXIV. Records, Maintenance, Retention and Disposal Effective Date: 7/1/99

STATEMENT OF POLICY

"Financial records" consist of various original documents, reports and journals that serve as a written, historical record of the financial activities of the parish or school. All such records must be maintained in a secure manner at the designated business offices, or, in the case of prior years records, in a designated outside storage location that is safe and secure. All such financial records should be available for reference and examination by authorized persons upon reasonable notice. In addition, a "records retention" policy and system should be in accordance with approved Diocesan guidelines.

PROVISIONS

1. The following financial records should be retained five years and then destroyed:
   - Bank deposit slips, bank statements and reconciliations, canceled checks and stubs, disbursement and receipt's registers/computer edit listings, correspondence concerning payments and receipts, paid invoices, purchase orders
2. The following financial records should be retained for seven years and then destroyed:
   - Contribution records (offertory, donations, gifts, etc.)
3. The following financial records should be retained permanently for fiscal and historical value:
   - Audit reports, financial statements, general ledgers, tax exemption certificates and correspondence, trust/estate files, construction files (contracts, drawings, specifications), real estate files/records, equipment files (warranties, manuals), property appraisals, property inventories, payroll records (W-2s, W-3s, 1099s) and personnel files, cemetery and burial records

XXV. Building, Renovation and Repair Projects **Effective date: 10/01/02 and prior**
Revised: 7/01/06

STATEMENT OF POLICY

As discussed in previous Policy statements, the Ordinary of the Diocese is the civil law owner of Diocese property under the doctrine of Corporation Sole. As such, Diocesan policy with respect to building, renovation and repair projects for any structures in the Diocese shall be governed by the Diocesan publication "Diocese of St. Petersburg Procedures for Building, Renovation and Repair Projects" (Construction Procedures).The Construction Office at the Pastoral Center should be contacted for a copy of this publication. "Section VI—Financial Regulations" of that publication is amended in accordance with Provision #1 below.

PROVISIONS

1. Section VI - Financial Regulations, Section A - Parishes, of the publication "Diocese of St. Petersburg Procedures for Building, Renovation and Repair Projects" is amended to read that the percentage of cash on hand required for all such projects is 50%.

2. "Building Fund" campaigns or collections may not be initiated without the written approval of the Ordinary, or his designee.

3. All cash dedicated or restricted for projects must be maintained in the Diocesan Savings and Loan Fund Trust, in a savings account titled in the name of the project, and restricted for such project.

4. Any loans required in accordance with the above cash on hand requirements must be approved by the Trustee's of the Diocesan Savings and Loan Fund Trust, in accordance with the then existing Policies of the Trust. (see Policy #XII)

AFTERWORD FINANCE ADMINISTRATION - SUMMARY OF "BEST PRACTICES"

Financial and Administrative Responsibility

- Be good stewards of the financial and physical resources of the ministry
- Know the difference between "Acts of Ordinary Administration" and "Acts of Extraordinary Administration", and the policies and procedures for the conduct of each
- Have and be familiar with Book V of the Code of Canon Law, and all other Canons affecting the financial administration of the ministry

Ethical Behavior and Professional Conduct

- Develop and implement written policies for ethical behavior, professional conduct, conflicts-of-interest and "whistle blowing"; seek help from the Pastoral Center
- Set the standards at the highest level

Finance Councils

- Required for all parishes/parochial schools, high schools and special schools
- Consult Diocesan guidelines
- Meet regularly with these Councils, and seek their advice in matters of financial administration including the establishment of good systems and procedures for the administration of parish/school finances

Financial Reporting

- Required reports must be submitted to Pastoral Center on a timely-basis, in specified formats
- Annual certifications to the Ordinary, and the completion of Internal Control evaluations are required of all parishes and all high schools
- Reports to parishioners should be presented in accordance with Canon 1287.2, to account for the stewardship of the goods entrusted to the ministry

Debt

- All loans must be approved by and secured through the Diocesan Savings and Loan Trust, unless approved otherwise by the Ordinary.
- Debts of any kind may not be incurred if they cannot be repaid from existing financial resources or the operating budget of the entity.

Bank Accounts

- Only have the minimum number of accounts necessary
- Must be in the name and address of the parish or school
- Pastor must approved the opening and closing of all accounts for parish and parochial schools; Principals and the Corporation Treasurer must approve for high schools and special schools.
- Pastor must be a signor on parish accounts and parochial school accounts; Principal and Treasurer must be signer on high school and special school accounts.
- Inform Finance Councils or Directors of changes in accounts or signatories.
- Insure independent reconciliations on bank statements are done timely, and that book balances agree with the books.
- Bank credit cards must be approved by and under the control of the Pastor for parishes and parochial schools, and the Principal for high schools and special schools.

Support and Revenue

- Record all support and revenue in the General Ledger when earned and/or received
- Segregate donations by donor requirement as unrestricted, restricted and/or endowed
- Record directly on parish or school books, based on which ministry is the beneficiary of the funds
- Keep appropriate donor records
- Comply with year-end donor reporting requirements
- Building Fund or other campaigns must be approved in advance by the Ordinary
- Record tuition and fee revenue on a "gross" basis
- "Pass-through" collections should not be reported as support or revenue
- Record and account for Mass Stipends separate from other funds
- Maintain tuition and fee receivable records, and reconcile total receivables to the books

Cash Receipts and Cash Disbursements

- Implement, monitor and administer systems with appropriate internal controls for the collection of funds and the disbursement of funds
- Implement, monitor and administer the proper segregation of duties for the handling of all cash, including the disbursement thereof
- Consult and follow Diocesan recommendations for the handling of offertory
- Consult and follow Diocesan recommendations for systems of Internal Control

Annual Parish Assessment and Annual Pastoral Appeal (APA)

- Participate in the APA in accordance with particular norms and policies
- Parish should budget projected APA receipts
- Annual Parish Assessment is to be budgeted and paid to support Diocesan Ministries

Diocesan Savings & Loan Fund Trust

- All parishes and schools are to participate in this Trust
- Keep in this Trust, all cash not needed within a 30 day accounting cycle
- Segregate cash in savings accounts by nature of restriction: unrestricted; restricted; or endowed
- Budget for and make required debt retirement payments on a timely basis
- Review all monthly statements of account when received
- Be familiar with Trust policies and requirements for securing a loan

Insurance and Employee Benefits Trust

- All parishes and schools are to participate in the Programs of this Trust
- Secure, read and apply all provisions of the Diocesan Manual, "Administrators Guide to Insurance and Employee Benefit Programs"
- Be knowledgeable of the requirements for employee participation in each Employee Benefit Program
- Enroll all eligible employees in the Programs when they become eligible
- Remove all employees no longer eligible for participation in the Programs when they are no longer eligible
- Budget for and remit premiums due to the Trust when due
- Follow the above practices for the Diocesan Pension Plan, which is not part of this Trust, and is administered by a separate Plan Administrator

Policies for the Non-Payment of Premiums

- Be knowledgeable of the Diocesan Policies for the non-payment or late payment of premiums to all insurance and employee benefit plans
- Remit required premiums when due to avoid interest on loans

Payroll and Personnel

- Hire qualified personnel for all financial administration positions
- Account for and compensate all "employees" in accordance with Church, Diocesan and Civil Laws and Statutes
- Account for and remit on a timely-basis all payroll taxes withheld and due to the IRS, or other taxing authorities
- Make a proper determination of what constitutes an "employee" and what constitutes an "independent contractor"
- Account for and compensate priests and religious in accordance with Diocesan policies
- Develop, implement and monitor Personnel Policies Manuals, and other policies as recommended by the Diocesan Office of Human Resources and Diocesan Legal Counsel
- Participate in the Diocesan Common Payroll system
- Consult with the Pastoral Center Offices of Finance and Human Resources
- Do not terminate an employee without consulting with the Diocesan Office of Human Resources and/or the Diocesan Legal Counsel

Taxes

- All parishes and schools are exempt from federal income taxes, and most sales taxes; an exemption number is required for sales tax exemption
- However, parishes and schools may be liable for other certain miscellaneous sales, excise, property and unrelated business income taxes; consult Diocesan guidance in these areas
- Consult with the Diocesan Office of Finance and Human Resources
- Consult with Diocesan Legal Counsel

Parish Subsidy to Schools

- Parishes are required to support Diocesan Catholic Schools in accordance with particular norms and policies of the Diocese

Missionary Cooperative Program and National Collections

- Parishes are to participate in the Diocesan Missionary Cooperative Program
- Parishes are to participate in the National Collections, and the policies related thereto

Estates and Trusts

- Notify the Diocesan Office of Finance or the Diocesan Attorney upon receipt of notice of estate or trust
- All estate and trust administration is to be handled by the Diocesan Office of Finance and/or Diocesan Legal Counsel
- Do not sign any documents of any estate or trust without the consultation and/or approval of the appropriate Diocesan representative

Parish Financial Review

- Have an independent financial review every three years, or upon a change of Pastors
- Read auditors report, and act upon recommendations in a timely manner
- Document the disposition, and the reasons for such disposition, for all auditor recommendations

Capital Expenditures

- All expenditures over $40,000 must have the Ordinary’s approval
- Building Fund Campaigns must be approved in advance by the Ordinary; always strive to fund all projects 100% with cash
- Consult Diocesan guidelines for fundraising
- Provide for future capital project needs in current year budgets
- Projects must be handled in accordance with the Diocesan policy manual entitled, “Building, Renovation and Repair Projects”

Contracts

- Only the Pastor may bind the parish and parochial school contractually
- High school or special schools’ contracts may require Board of Director approval
- Contracts over $40,000 require the approval of the Ordinary
- Seek counsel of Diocesan Legal Counsel and/or Executive Director of Finance

Real Estate and Buildings

- Civil ownership of all land and buildings is with the Ordinary, except for separate corporations
- All transactions involving such property, other than the payment of day-to-day operating expenses, must be approved through the Bishop’s Office

Record Retention

- Develop a written record retention policy for all parish and school records
- Review, monitor and update the Policy on a regular basis
- Assign a specific employee to be responsible for the administration of this Policy

Building, Renovation and Repair Projects

- Secure and be familiar with the Diocesan publication, “Diocese of St. Petersburg Procedures for Building, Renovation and Repair Projects”
- Consult Financial Policy #XII and #XXV for further guidance

Other Guidance and Financial Information

- Consult the Appendices of this Financial Guidelines and Policies Manual for further guidance in the administration of the temporal goods of the ministry.

APPENDIX I. CANONS OF THE CHURCH - TEMPORAL GOODS

The following Canons of the Church are the main Canons that impact temporal matters:

Canon #35	With due regard for Canon # 76.1, an individual administrative act, be it a decree, a precept or a rescript, can be issued by one who possesses executive power within the limits of that person's competency.
Canon #35.1	The Pastor is to ensure that the parish books, including baptismal, marriage and death registers, are accurately inscribed and carefully preserved.
Canon #231.1	Lay persons who devote themselves permanently or temporarily to some special service of the Church are obliged to acquire the appropriate formation which is required to fulfill their function properly and to carry it out conscientiously, zealously, and diligently.
Canon #381	A diocesan bishop in the diocese committed to him possesses all the ordinary, proper and immediate power which is required for the exercise of his pastoral office except for those cases which the law or a decree of the Supreme Pontiff reserves to the supreme authority of the Church or to some other ecclesiastical authority.
Canon #391	The diocesan bishop is to rule the particular church committed to him with legislature, executive and judicial power in accord with the norm of law.
Canon #392	Since he must protect the unity of the universal Church, the bishop is bound to promote the common discipline of the whole Church and therefore to urge the observance of all ecclesiastical laws.
Canon #393	The diocesan bishop represents his diocese in all its juridic affairs.
Canon #473	The diocesan bishop must see to it that all matters which concern the administration of the entire diocese are duly coordinated and arranged in such a manner that the good of the portion of Gods' people entrusted to him is more suitably attained.
Canon #515.3	A legitimately erected parish has juridic personality by the law itself.
Canon #532	The pastor represents the parish in all juridic affairs in accord with the norm of law; he is to see to it that the goods of the parish are administered in accord with the norms of Canons 1281 to 1288.
Canon #537	Each parish is to have a finance council which is regulated by universal law as well as by norms issued by the diocesan bishop; in this council the Christian faithful, selected according to the same norms, aid the pastor in the administration of parish goods with due regard for the prescription of Canon 532.
Canon #1263	After the Bishop has heard the finance council and the presbyteral council, he has the right to impose a moderate tax for the needs of the diocese upon public juridic persons subject to his governance; this tax is to be proportionate to their income.

Canon #1276.1 It is the responsibility of the ordinary to supervise carefully the administration of all the goods which belong to the public juridic persons subject to him with due regard for legitimate titles attributing even more significant rights to the same ordinary.

Canon #1276.2 Ordinaries are to see to the organization of the entire administration of ecclesiastical goods by issuing special instructions within the limits of universal and particular law with due regard for rights, legitimate customs and circumstances.

Canon #1279 The administration of ecclesiastical goods is the responsibility of the individual who immediately governs the person to whom the goods belong unless particular law, statutes or lawful custom provide otherwise and with due regard for the right of the ordinary to intervene in case of negligence by an administrator.

Canon #1281 With due regard for the prescriptions of their statutes, administrators invalidly posit acts which go beyond the limits and procedures of ordinary administration unless they first obtain written authority from the ordinary.

Canon #1283.1 Before administrators take office they must take an oath before the ordinary or his delegate that they will be efficient and faithful administrators.

Canon #1283.2 A newly-assigned Pastor is to prepare, sign and subsequently renew an accurate and detailed inventory of the possessions of the parish, including both real and moveable property, precious items, and items of cultural and historical value.

Canon #1284.1 All administrators are bound to fulfill their office with the diligence of a good householder.

Canon #1284.2-9 For this reason they must: take care that none of the goods entrusted to their care is in any way lost or damaged and take out insurance policies for this purpose, insofar as such is necessary; take care that the ownership of ecclesiastical goods is safeguarded through civilly valid methods; observe the prescriptions of both canon and civil law or those imposed by the founder, donor or legitimate authority; they must especially be on guard lest the Church be harmed through the non-observance of civil laws; accurately collect the revenues and income of goods when they are legally due, safeguard them once collected and apply them according to the intention of the founder or according to legitimate norms; pay the interest on a loan or mortgage when it is due and take care that the capital debt itself is repaid in due time; with the consent of the ordinary invest the money which is left over after expenses and which can be profitably allocated for the goals of the juridic person; keep well ordered books of receipts and expenditures; draw up a report on their administration at the end of each year; duly arrange and keep in a suitable and safe archive the documents and deeds upon which are based the rights of the Church or the institution to its goods; deposit authentic copies of them in the archive of the curia when it can be done conveniently.

Canon #1284.3	It is strongly recommended that administrators prepare annual budgets of receipts and expenditures; however, it is left to particular law to issue regulations concerning such budgets and to determine more precisely how they are to be presented.
Canon #1286.1	Administrators of goods are to observe meticulously the civil laws pertaining to labor and social policy according to Church principles in the employment of workers.
Canon #1286.2	Administrators of goods are to pay employees a just and decent wage so that they may provide appropriately for their needs and those of their family.
Canon #1287.1	Both clerical and lay administrators of any ecclesiastical goods whatsoever which have not been legitimately exempted from the governing power of the diocesan bishop are bound by their office to present the local ordinary with an annual report, which in turn he is to present to the finance council for its consideration; any contrary custom is reprobated.
Canon #1287.2	Administrators are to render an accounting to the faithful concerning the goods offered by the faithful to the Church, according to norms to be determined by particular law.
Canon #1288	Administrators are neither to initiate nor to contest a law suit on behalf of a public juridic person in civil court unless they obtain the written permission of their own ordinary.
Canon #1289	The pastor is not to relinquish his responsibilities of his own Initiative.
Canon #1300	The intent of the faithful who give or relinquish their goods for pious causes must be diligently fulfilled once the gift is lawfully accepted, both in the manner of administration and disposition of their goods, keeping the regulation of Canon #1301.3.
Canon #1301.1	The Ordinary is the executor of all pious gifts, whether testamentary or lifetime gifts.
Canon #1301.2	The Ordinary can and must be watchful that pious gifts are carried out, and any other executors are held to render an account of the fulfillment of their duties to him.
Canon #1301.3	Provisions in the last Wills contrary to this right (Canon #1301.2) of the Ordinary are to be considered inapplicable.
Canon #1304	In order for a foundation to be validly accepted by a juridic person the written permission of the ordinary is required; and he is not to grant that permission until he legitimately determines that the juridic person can fulfill the new obligation as well as those already accepted; he should most specially take care that the income entirely corresponds to the attached obligations in accord with the customs of the place or region.

APPENDIX II. PARISH FINANCE COUNCIL GUIDELINES

Required Existence

In each parish there is to be a Finance Council to help the parish priest in the administration of the goods of the parish and, if applicable, its school, without prejudice to canon 532. It is ruled by the universal law and by the norms laid down by the diocesan Bishop and it is comprised of members of the faithful selected according to these norms.

Mission

Attention to the proper use of the Church's goods is a requirement of justice and an indispensable aid in furthering the Church's mission. The parish resources which support parish life represent the contributions of parishioners and other sources from the community. Aside from the legal liability involved, there is an accountability and responsibility that the parish owes to its people. The parish needs to be true to that trust and to maintain credibility with parishioners. The Parish Finance Council fulfills an integral advisory role in accomplishing this Mission.

Consultative Body

The parish Finance Council is a Consultative body which makes recommendations to the pastor. The pastor serves the parish community entrusted to him by the Bishop. The pastor accomplishes this role through teaching, sanctifying, and governing with the cooperation of others who share in the pastoral care of the parish and the assistance of the Christian faithful (Canon 519). This role of the Pastor cannot be diminished or surrendered. This authority is to be viewed as genuine service to the Christian faithful exercised in a collegial manner. The pastor represents the parish in all juridic affairs and sees that the goods of the parish are administered in accord with the norms of Canon Law (Canons 1281-1288). The Pastor is responsible for all legal, business and administrative matters of the parish.

The Pastor Presides

By virtue of his office, the Pastor presides over the Finance Council or he may appoint a chairperson. The Pastor is responsible for the final approval of Council recommendations concerning financial plans and policies, any subsequent consultations with other persons or groups deemed necessary, and for the implementation by parishioners or parish staff. While maintaining his presiding role, the Pastor may also delegate another staff member to work with the Council based upon their experience and skills with financial matters.

Acts of Administration

In accordance with the Code of Canon Law, The Diocese has specified what constitutes Acts of Ordinary Administration, and what constitutes Acts of Extraordinary Administration. The Pastor should consult with the Finance Council on all matters that affect the life and mission of the Parish. Examples of such areas of consultation are attached.

Administration of Parish Goods

The main purpose of the Finance Council is to aid the Pastor in the administration of parish goods. The Council provides expertise and consultation through financial analysis, planning and policy development to aid the Pastor in this administration. Parish goods should be defined as all parish financial resources, buildings and grounds. In order to be effective in their work, the members of the Council may need to have access to records and documents relating to financial matters of the parish and its activities, always respecting the confidential nature of such records.

Coordination and Communication

The Pastor is responsible for the administration of the parish and school to which he is assigned. The Finance Council assists the Pastor in the administration of these goods. Others, such as the parish staff and the pastoral council, also assist the Pastor in the administration of the parish. The Finance Council should make their financial expertise available to these groups. The Pastor is to make available to the Finance Council all appropriate financial information about the parish so that the Finance Council can provide the advice and assistance sought by the Pastor.

Structure and Service Term of the Council

The Council should consist of men and women of the parish who possess demonstrated technical expertise in matters of financial administration. The members of the Council should have understanding and support for the mission of the Church and have a reputation of outstanding integrity. In addition to the Pastor, the Council should consist of a least three members, but not more than eight members. The pastor should always be mindful of the benefits of member rotation for securing a continuing flow of fresh ideas for the benefit of the parish. Once appointed to a term on the Council, the Pastor should not remove such member before the end of their term unless there is serious reason which prevents the member from effectively functioning on the Council. The pastor presides over the Finance Council, however, a Chairperson selected from among the members should be chosen to conduct the meetings. The Pastor and the Council should develop local guidelines for the Finance Council; such guidelines should cover the purpose, term and operating guidelines of the council. Official minutes should be kept and approved for every meeting of the council.

Limited Term of Members

The purpose of a limited term is to generate fresh ideas, prevent stagnation and burnout, create leadership opportunities for others, and encourage volunteers to emerge who might otherwise decline a lengthy commitment. This does not mean that the Pastor should not have the option of reappointing members to additional terms. However, such reappointments should not extend beyond one additional term. The expiration of terms should be staggered among the members. Such terms should not be less that two years, nor more than four years.

Order of Business

Attached is a suggested annual order of business that a Council might undertake based upon the suggested areas of involvement of the Council. At a minimum, the Finance Council of the parish should meet quarterly.

Annual Financial Certifications

The members of the Finance Council are required to signed annual financial certifications to the Bishop of the Diocese in accordance with Diocese Financial Policy # V, “Additional Annual Reporting”.

Pastoral Council

Canon 536 allows for the establishment of Parish Pastoral Councils. Currently, the Bishop of the Diocese of St. Petersburg has not mandated such Councils in the Diocese. For those parishes which have established Pastoral Councils, there should be a close working relationship between such Council and the Finance council. It would be advantageous to have a member of the Finance Council serve on the Pastoral Council.

Parish Finance Councils Areas of Consultation

- Annual budget
- Quarterly and Annual financial reports to the Bishop
- Accountings to the Christian faithful of the parish
- Long-term financial planning
- Financial reporting and other technological systems
- Acquisitions and sales of land
- Expenditures or projects in excess of $25,000
- Leases or other contractual arrangements that last more than one year
- Personnel administration:
  -Staffing needs
  -Salary Scales
  -Tax compliance and reporting
  Personnel Policies
  Borrowing money
- Stewardship and other fund-raising matters
- Federal, State, and local regulatory matters

Parish Finance Councils Sample of annual order of business

JUNE
Selection of Council officers for the coming fiscal year.
Provide for the orientation of new members.
Recognize outgoing Council members.
Plan work and schedule meeting for next fiscal year.
Quarterly review of Actual vs. Budgeted financial activity.

AUGUST
Review and sign the annual financial report sent to the Diocese.
Plan presentation of annual report to the parish.

OCTOBER
Quarterly review of Actual vs. Budgeted financial activity.
Review security procedures for handling offertory and other funds, and update as needed.
Comply with Diocese Financial Governance Reporting (Policy # V).

Parish Finance Councils Sample of annual order of business (continued)

NOVEMBER	Develop financial criteria and procedures for budget process for next fiscal year. Review program of job classifications, salary administration, etc. and update as needed.
JANUARY	Review and discuss insurance and employee benefit programs; communicate questions and/or suggestions to the Pastoral Center. Quarterly review of Actual vs. Budgeted financial activity.
FEBRUARY	Work on budget development and planning for next fiscal year. Long-term financial planning for future fiscal years.
APRIL	Quarterly review of Actual vs. Budgeted financial activity. Review school financial reports and subsidy to the school.
MAY	Review and recommend parish budget for next fiscal year. Review stewardship and other means of attaining needed support for the parish. Plan transition to new Council members.

APPENDIX III. INTERNAL ACCOUNTING CONTROL

PROCEDURES: An Overview for Parishes and Schools

Definition: Internal Accounting Control Procedures is a "process" designed to ensure that an organization's goals are met with respect to effective and efficient operations, reliable financial reporting, and compliance with all laws and regulations that govern the organization. An effective internal control process can provide only reasonable, not absolute, assurance that these goals are met. The internal control process will vary with the size of the organization, and must be designed so that the cost of the controls does not exceed their potential benefits. The internal control process must be implemented by the management of the organization and administered by all the people of the organization, for the purpose of receiving and securing, safeguarding and using for approved purposes, all of the assets belonging to and entrusted to the organization.

BANK ACCOUNTS:

1. A parish or school should use the minimum number of bank accounts that are necessary. This would consist of a main depository and disbursement account through which all the financial transactions of the parish shall pass; a Mass Stipend account; a Women's Guild account; a Men's Guild account; a Bingo Account; and other accounts as recognized by the Diocese. Such accounts should be chosen based on three criteria:

    A. Financial strength of the bank
    B. Ability to offer necessary services for a reasonable cost
    C. Accessibility of the bank

2. Only the Pastor or Parochial Administrator, or Principal (in the case of school without an assigned Pastor) is permitted to authorize the opening or closing of a bank account. Such decisions should be noted in writing in the entity records. Such accounts should always be in the name of the entity; never in the name of an individual or individuals, the mailing address of the account should always be the entity; never a private residence. Separately incorporated organizations such as the Knights of Columbus or St. Vincent de Paul Society should not use the entity's federal employer identification number.

3. Authorized check signers should be limited and should always include, in the case of a parish or a parochial school, the Pastor. In the case of other schools, the Principal and the Treasurer should always be the authorized signer. Other signers authorized by the Pastor must be limited to Priests, Parochial Administrators and Parochial Vicars. Where possible, the Pastor (Principal) should sign all disbursement checks. Facsimile signatures are prohibited.

4. Monthly bank statements should be opened and a review made of all the deposits and checks by the Pastor/Parochial Administrator/Principal. Reconciliation of the accounts should be done by someone other than the authorized check signers, and such reconciliation should receive an independent review. During the reconciliation process, any irregularities, such as a check made out to cash or to the person signing it, with the exception of single signer parishes or schools, should be reported and investigated.

CASH RECEIPTS:

1. From receipt to deposit, all monies, whether cash or checks, should be handled by two people. No one person should perform accounting functions that are not subject to regular systematic verification by a second party.

2. All checks received should be immediately endorsed to the appropriate entity account. A self-inking endorsement stamp can be obtained for the purpose.

3. A comparison of the cash receipts total against the bank deposit slip should be made by an individual who does not have access to the cash receipts.

4. Cash withdrawals from deposits should not be allowed. Additionally, entity money should never be taken home by anyone.

5. Receipts totals should be compared from week to week, month to month, and year to year. Fluctuations should be explainable. Unexplained fluctuations should be pursued immediately and reported to the Pastor/Principal.

6. All regular money handlers should be subjected to a careful background check. In requiring a background check of all prospective money handlers no one individual will be embarrassed by being singled out for special scrutiny.

7. Insist that all individuals involved in the cash receipts, recording, and accounting functions take some hiatus from these duties. Annual vacations and periodic rotation of duties can help in this area.

CASH DISBURSEMENTS:

1. Supporting documentation should be attached to all disbursement checks when presented to the Pastor/Principal for signatures. After the checks have been signed, the supporting documentation should be returned to the bookkeeper and the checks mailed by someone other than the bookkeeper. No checks should be made payable to cash and no blank checks should be signed.

2. Budgets should be developed and approved for each account. Disbursements not specified in the approved budget and not having appropriate support should not be allowed without direct approval of the Pastor/Principal. Disbursements should be made in accordance with approved budgets.

3. Each month, actual disbursements should be compared to the approved budget. A monthly report of this comparison should be given to the appropriate management personnel. Significant differences between the actual and the budgeted expenses should be investigated and resolved

SAFEGUARDING OF ASSETS:

1. Keep blank checks locked in a secure place.

2. All entities should have a fire-proof safe on the premises. Access to the safe should be limited or controlled by the Pastor/Principal and other Priests as deemed necessary.

3. Deposit all cash and checks in the bank the same day that they are received; otherwise cash and checks should be secured in the safe. Night depositories make daily deposits more convenient

4. Limit the authorized check signers to the Pastor/Principal and other Priests authorized by the Pastor, and Treasurer's of Diocesan corporations.

5. The general ledger and subsidiary ledgers, whether manual or computerized, should be accessible only to authorized individuals and should be kept in locked, fire-proof locations at night.

6. Consideration should be given for off-site storage of computer records, including program software with appropriate backup procedures.

The Diocesan Liability Insurance Program provides a Blanket Employee Dishonesty Bond covering dishonest and fraudulent acts of all Employees. No separate Bond is needed. Volunteers are covered under the Theft portion of this coverage, which includes loss of money and securities. However, all the previously recommended controls in the areas of bank accounts, cash receipts, disbursements, fund-raising, and assets protection apply equally to all employees and volunteers. Church institutions must protect all assets. Esteem, confidence and trust are valuable and are as worthy of protection as money. Considering the loss of any of the assets, it is well worth our efforts to implement as many of these controls as possible.

APPENDIX III-1 FINANCIAL GOVERNANCE ANNUAL REPORTING FORMS PARISHES

CONFIDENTIAL

(DATE)

Most Reverend Robert N. Lynch, Bishop
Diocese of St. Petersburg
P.O. Box 40200
St. Petersburg, FL 33743

Dear Bishop Lynch:

Enclosed are the financial reports that were made available to my parishioners for the fiscal year ended June 30, ______. Please accept this statement as my annual certification concerning the financial governance of the parish for the year ended June 30, _______, which is required to be remitted to you within 120 days of the end of the fiscal year.

This is to certify to the following:

- the Annual Budget for the Parish was made available to our parishioners.

- periodic (interim) financial reports, including but not limited to a Balance Sheet and a Statement of Activities, were made available to my parishioners as follows:

For the period ended	Date issued to parishioners
____________________	________________________
____________________	________________________
____________________	________________________
____________________	________________________

- the enclosed financial reports represent, to the best of our knowledge and belief, an accurate and complete accounting of parish finances;

- the Parish Finance Council regularly meets, and reviews and discusses the budget and periodic financial reports of the parish. Meetings of the Council during the above period, and since the end of the period, were held on the following dates:

____________________	________________________
____________________	________________________
____________________	________________________
____________________	________________________

Annual Parish Governance Letter, page two

Attached to this letter is a copy of the approved minutes of the above meetings.

All of the above is hereby attested to by me and by the undersigned members of my Finance Council:

Name	Occupation	Address	Signature
______________	_______________	_______________ _______________	_____________________
______________	_______________	_______________ _______________	_____________________
______________	_______________	_______________ _______________	_____________________
______________	_______________	_______________ _______________	_____________________
______________	_______________	_______________ _______________	_____________________

Thank you, and if you have any questions concerning this annual certification, please do not hesitate to call me. I remain,

Sincerely Yours in Christ,

(Name), Pastor

c: Diocese Audit Committee, c/o The Pastoral Center of the Diocese of St. Petersburg, w/o meeting minutes

Parish______________________________
School______________________________
City, State___________________________
For the year ended___________________

This questionnaire is to be completed by each parish and school annually. Each question must be answered, and "no" answers must be explained in the comment section next to the question. If you are in doubt as the meaning of a question, please contact the diocesan Finance Office for assistance. This completed questionnaire must be submitted to the diocesan Finance Office within 120 days of the end of the fiscal year, with the required acknowledgment signatures affixed.

PARISH/SCHOOL ADMINISTRATION	(X) appropriate box YES	NO	If you answered "no", please explain why
Does the parish have a Finance Council, established and operating in accordance with Canon Law, and the policies issued by the Diocese?			
Do you have a copy of the current Diocesan Financial Policies and Procedures?			
Have the Pastor, Business Manager and at least one Finance Council member read the Diocesan Financial Policies and Procedures?			
Is the parish in compliance with every policy as included in the current Diocesan Financial Policies and Procedures?			
Is access to the general ledger and supporting subsidiary ledgers restricted to authorized personnel?			
Are subsidiary ledgers maintained and reconciled to the general ledger on a monthly basis?			

FINANCIAL REPORTING

Has the budget been submitted at the beginning of the fiscal year in accordance with diocesan policy?

Have interim financial reports been submitted in accordance with diocesan policy during the fiscal year?

Have year-end financial reports been submitted in accordance with diocesan policy?

Has the parish/school given the parishioners a complete financial report for the year?

Does the Finance Council review budget vs. actual variances on a regular basis, and make budget adjustments as necessary?

Does the Finance Council review and approve interim and year-end financial statements on a timely basis?

Have all auxiliary groups been informed of diocesan and parish financial policies, and are they in compliance with them?

ACCOUNTING SYSTEMS

Do you have written procedures for the following accounting systems: Cash Receipts; Cash Disbursements; Personnel; Management; Payroll; Purchasing; Mass Stipends and Stole Fees?

BANK ACCOUNTS

Are bank accounts established, maintained and reported in accordance with diocesan financial policies?

Is the pastor an authorized signer on all bank accounts, including all auxiliary activity bank accounts?

Are all auxiliary activity bank statements received directly at the Parish and reviewed by parish personnel?

Are all authorized signers on bank accounts in accordance with diocesan policy?

Are unopened, monthly bank statements delivered directly to the pastor, or his designee, someone who is independent of the recording of receipts and disbursements into the general ledger, and is the statement opened and its contents reviewed by this person?

Are monthly bank reconciliations performed for all bank accounts, by someone who is independent of recording cash transactions, and are all reconciling differences resolved on a timely basis?

Are bank reconciliations reviewed by someone other than the preparer on a periodic basis?

On a test basis, are endorsements on cleared disbursement checks compared to the payee on the front of the check?

Are disbursement checks indicated as outstanding for more than 60 days investigated and resolved?

Does the Finance Council approve the opening and closing of all bank accounts?

Does someone other than the Bookkeeper review the monthly activity in the savings accounts with the diocese, and compare such activity to the activity posted in the general ledger?

Are funds received for Mass stipends recorded separately from other funds, and a record kept of all Masses said in accordance with Canonical and diocesan requirements?

Are funds in excess of a 60 day operating requirement transferred to the Diocesan Savings & Loan Trust for investment?

CASH RECEIPTS

Are responsibilities for collection and deposit preparation functions segregated from those for recording cash receipts and general ledger entries?

Is the parish/school in compliance with diocesan policies with respect to cash receipts?

Has the parish established offertory count procedures in accordance with diocesan guidelines, and are these procedures being followed?

Is an envelope process for offertory in place, and are periodic statements sent to parishioners giving them a record of their contributions to the parish?

If a parishioner disputes their offertory statement, is the dispute resolved by someone other than personnel who handle and record cash receipts?

Are all cash receipts deposited and recorded in the general ledger in the proper account on a timely basis (preferably, daily)?

Is all cash received deposited intact, and no funds removed from the deposit?

Is a subsidiary record of all accounts receivable kept, outstanding amounts followed-up on, and is the record reconciled to the general ledger on a monthly basis?

Is a restrictive endorsement placed upon each incoming check when it is received?

Are records of cash received, including offertory, compared to bank validated deposit slips on a daily basis?

Are "NSF" checks followed-up immediately, resolved and adjusted as necessary?

Are restricted donations recorded as restricted, and used only for the restricted purpose imposed by the donor?
Is a record kept of the use of the restricted funds?

Are endowed funds received recorded as endowment, and is only the investment income expended for ministry use?

Are all bequests and trusts where the parish/school is a beneficiary handled in accordance with Canonical and diocesan requirements for the acceptance and receipt of such gifts?

CASH DISBURSEMENTS

Is the parish/school in compliance with diocesan policies with respect to cash disbursements?

Do procedures exist to insure that disbursements are made only for budgeted matters, or have specific Finance Council approval, and to insure that all disbursements are approved?

Is cash disbursed only upon receipt of properly approved original vendor invoices, or properly approved check requests?

Do check signers review support documents before signing checks?

Do procedures exist to insure that all disbursements are properly classified in the general ledger?

Are unissued, blank checks under tight control and accounted for?

Is the drawing of checks to cash or bearer prohibited?			
Are the use of facsimile signature stamps prohibited?			
Are credit cards issued and used only in accordance with diocesan policy? Is the use of debit cards prohibited?			
Are all expenses paid when due, and are all vendor discounts taken?			
If a discretionary account exists, is the activity reported on the parish financial reports? Is confidentiality maintained for the funds disbursed?			
Are "voided" checks destroyed by someone independent of the cash disbursement recording function, and is the voided check recorded as voided immediately?			
Have funds collected for National and Special collections been remitted to the Diocese within 30 days of the collections?			

PERSONNEL AND PAYROLL

Is the parish/school in compliance with diocesan policy with respect to personnel management and payroll issues, including USCCB and diocesan policy with respect to Safe Environment Protection?			
Are complete personnel files maintained for all employees?			
Are all employees properly classified as "exempt" or "nonexempt"?			
Are all payments to individuals, other than to Religious, and other than for properly accounted for employee expense reimbursements, reported on IRS Form W-2?			

Are the required tax withholdings made from individuals paychecks and remitted to the taxing authority in accordance with their rules and regulations?

Are all payments made to and for Religious who are subject to a vow of poverty, made and reported in accordance with diocesan policy and IRS regulations?

Is Form 1099 issued to independent contractors, in accordance with IRS regulations?

Are all payroll tax returns filed, and payroll taxes remitted, in accordance with IRS, State and Local regulations, on a timely basis?

Are all diocesan priests recognized and reported as employees for Federal Income Tax purposes, but as Self Employed individuals for Social Security Tax purposes?

Are clergy Mass stipends and stole fees reported to the IRS as income in accordance with diocesan policy?

Are transitional and permanent deacons receiving remunerations compensated and reported as "lay" employees".

Are the eligibility requirements for all diocesan employee benefit plans carefully observed with respect to each employee so that no one will be improperly included or excluded?

Are withholdings from checks to employees for contributory participations in diocesan employee benefit plans remitted to the plans on a timely basis?

Acknowledgment

We, the undersigned, acknowledge the following concerning this questionnaire:

1. We are familiar with these internal controls as recommended by the Diocese.
2. Where we have answered "no" to a control question, we have explained above why it was not practical or appropriate to follow the internal control, and that we have implemented an alternative control procedure which conforms as closely as possible to the spirit of the control procedure as established by the diocese.
3. We have met to review and discuss all of the above internal controls, and represent that they are functioning as required except as indicated otherwise.
4. We are not aware of any parish or school checking, savings or other accounts that have been omitted from the accounting records and our financial reports.
5. We are not aware of any inquiries or communications from any regulatory bodies (i.e. IRS, etc.) in which we have not resolved and/or complied with the matter. If not, we have attached the details and an explanation of the matter.

<u>SIGNATURES:</u>

____
Pastor

____
Principal

____
Business/Office Manager

____
Bookkeeper

Finance Council Members:

____ ______________________________

____ ______________________________

____ ______________________________

APPENDIX III-2 FINANCIAL GOVERNANCE ANNUAL REPORTING FORMS-SCHOOLS

School______________________________
City, State___________________________
For the year ended___________________

This questionnaire is to be completed by each Diocesan school annually. Each question must be answered, and "no" answers must be explained in the comment section next to the question. If you are in doubt as the meaning of a question, please contact the diocesan Finance Office for assistance. This completed questionnaire must be submitted to the diocesan Finance Office within 120 days of the end of the fiscal year, with the required acknowledgment signatures affixed.

SCHOOL ADMINISTRATION	(X) appropriate box Y E S	N O	If you answered "no", please explain why
Does the school have a Finance Council, established and operating in accordance with policies issued by the Diocese?			
Do you have a copy of the current Diocesan Financial Policies and Procedures?			
Have the Principal, Business Manager and the Finance Council member read the Diocesan Financial Policies and Procedures?			
Is the school in compliance with every policy as included in the current Diocesan Financial Policies and Procedures?			
Is access to the general ledger and supporting sub-sidiary ledgers restricted to authorized personnel?			
Are subsidiary ledgers maintained and reconciled to the general ledger on a monthly basis?			

FINANCIAL REPORTING

Has the budget been submitted at the beginning of the fiscal year in accordance with diocesan policy?

Has a subsequent final budget based on actual enrollment been submitted in accordance with Diocesan Policy?

Have interim financial reports been submitted in accordance with diocesan policy during the fiscal year?

Have year-end financial reports been submitted in accordance with Diocesan Policy?

Does the Finance Council review budget vs. actual variances on a regular basis, and make budget adjustments as necessary?

Does the Finance Council review and approve interim and year-end financial statements on a timely basis?

Have all auxiliary groups been informed of diocesan and parish financial policies, and are they in compliance with them?

ACCOUNTING SYSTEMS

Do you have written procedures for the following accounting systems: Cash Receipts; Cash Disbursements; Personnel; Management; Payroll; Purchasing; Tuition Receivable; and Accounts Payable

BANK ACCOUNTS

Are bank accounts established, maintained and reported in accordance with diocesan financial policies?

Is the principal an authorized signer on all bank accounts, including all auxiliary activity bank accounts?

Are all auxiliary activity bank statements received directly at the school and reviewed by school personnel?

Are all authorized signers on bank accounts in accordance with diocesan policy?

Are unopened, monthly bank statements delivered directly to someone who is independent of the recording of receipts and disbursements into the general ledger, and is the statement opened and its contents reviewed by this person?

Are monthly bank reconciliations performed for all bank accounts, by someone who is independent of recording cash transactions, and are all reconciling differences resolved on a timely basis?

Are bank reconciliations reviewed by someone other than the preparer on a periodic basis?

On a test basis, are endorsements on cleared disbursement checks compared to the payee on the front of the check?

Are disbursement checks indicated as outstanding for more than 60 days investigated and resolved?

Does the Finance Council approve the opening and closing of all bank accounts?

Does someone other than the Bookkeeper review the monthly activity in the savings accounts with the diocese, and compare such activity to the activity posted in the general ledger?

Are banking relationships reviewed periodically to insure that the most economical and effective banking services are being obtained?

Are funds in excess of a 60 day operating requirement transferred to the Diocesan Savings & Loan Program for investment?

CASH RECEIPTS

Are responsibilities for collection and deposit preparation functions segregated from those for recording cash receipts and general ledger entries?

Is the school in compliance with diocesan policies with respect to cash receipts?

Does the school have written cash count procedures to be used for the control of all cash received?

Are parents, or other individuals responsible for the payment of tuition and fees, provided periodic statements of their account?

If a parent disputes their account statement, is the dispute resolved by someone other than personnel who handle and record cash receipts?

Are all cash receipts deposited and recorded in the general ledger in the proper account on a timely basis (preferably, daily)?

Is all cash received deposited intact, and no funds removed from the deposit?

Is a subsidiary record of all accounts receivable kept, outstanding amounts followed-up on, and is the record reconciled to the general ledger on a monthly basis?

Is a restrictive endorsement placed upon each incoming check when it is received?

Are records of cash received, including offertory, compared to bank validated deposit slips on a daily basis?

Are "NSF" checks followed-up immediately, resolved and adjusted as necessary?

Are restricted donations recorded as restricted, and used only for the restricted purpose imposed by the donor?
Is a record kept of the use of the restricted funds?

Are endowed funds received recorded as endowment, and is only the investment income expended for ministry use?

Are all bequests and trusts where the school is a beneficiary handled in accordance with Canonical and diocesan requirements for the acceptance and receipt of such gifts?

CASH DISBURSEMENTS

Is the school in compliance with diocesan policies with respect to cash disbursements?

Do procedures exist to insure that disbursements are made only for budgeted matters, or have specific Finance Council approval, and to insure that all disbursements are approved?

Is cash disbursed only upon receipt of properly approved original vendor invoices, or properly approved check requests?

Do check signers review support documents before signing checks?

Do procedures exist to insure that all disbursements are properly classified in the general ledger?

Are unissued, blank checks under tight control and accounted for?

Is the drawing of checks to cash or bearer prohibited?

Are the use of facsimile signature stamps prohibited?

Are credit cards issued and used only in accordance with diocesan policy? Is the use of debit cards prohibited?

Are all expenses paid when due, and are all vendor discounts taken?

Are payments made to individuals who are not employees properly reported to the IRS on Form 1099?

Are "voided" checks destroyed by someone independent of the cash disbursement recording function, and is the voided check recorded as voided immediately?

Are the use of petty cash funds restricted, monitored and review by an independent party on a monthly basis?

PERSONNEL AND PAYROLL

Is the school in compliance with diocesan policy with respect to personnel management and payroll issues, including USCCB and diocesan policy with respect to Safe Environment Protection?

Are complete personnel files maintained for all employees?

Are all employees properly classified as "exempt" or "nonexempt"?

Are all payments to individuals, other than to Religious, and other than for properly accounted for employee expense reimbursements, reported on IRS Form W-2?

Are the required tax withholdings made from individuals paychecks and remitted to the taxing authority in accordance with their rules and regulations?

Are all payments made to and for Religious who are subject to a vow of poverty, made and reported in accordance with diocesan policy and IRS regulations?

Is Form 1099 issued to independent contractors, in accordance with IRS regulations?

Are all payroll tax returns filed, and payroll taxes remitted, in accordance with IRS, State and Local regulations, on a timely basis?

Are all diocesan priests recognized and reported as employees for Federal Income Tax purposes, but as Self Employed individuals for Social Security Tax purposes?

Are clergy Mass stipends and stole fees reported to the IRS as income in accordance with diocesan policy?

Are the eligibility requirements for all diocesan employee benefit plans carefully observed with respect to each employee so that no one will be improperly included or excluded?

Are withholdings from checks to employees for contributory participations in diocesan employee benefit plans remitted to the Plans' Administrator on a timely basis?

Acknowledgment

We, the undersigned, acknowledge the following concerning this questionnaire:

1. We are familiar with these internal controls as recommended by the Diocese.
2. Where we have answered "no" to a control question, we have explained above why it was not practical or appropriate to follow the internal control, and that we have implemented an alternative control procedure which conforms as closely as possible to the spirit of the control procedure as established by the diocese.
3. We have met to review and discuss all of the above internal controls, and represent that they are functioning as required except as indicated otherwise.
4. We are not aware of any school checking, savings or other accounts that have been omitted from the accounting records and our financial reports.
5. We are not aware of any inquiries or communications from any regulatory bodies (i.e. IRS, etc.) in which we have not resolved and/or complied with the matter. If not, we have attached the details and an explanation of the matter.

SIGNATURES:

Date

Principal

Business/Office Manager Date

Bookkeeper Date

Finance Council Members:

Date

Date

Date

Date

APPENDIX IV. OFFERTORY HANDLING PROCEDURES - A MODEL

1. Upon collection of the offertory, all offerings are delivered to one designated area within the Church and put into one offertory basket under the supervision of two or more ushers for presentation to the altar with the gifts.

2. Upon presentation to the altar, the offering basket remains in view of the congregation in the altar area.

3. At the conclusion of Mass, two or more individuals remove the offering basket to secure area within the Church and place the funds into a serially numbered, tamper-evident bag provided by the bank that can be sealed in the presence of such individuals. Such bag should remain in a secure place within the Church until the end of the last Mass of the day when all sealed bags should be taken by two reliable parishioners, clergy, or employees to the bank night drop.

4. On Monday morning, the Parish "bookkeeper" and one or more other parishioners, Clergy or employees who are "independent" of the bookkeeper, go to the bank to secure the overnight bags (one for each Mass) and count the funds. The bags should still contain the same seal as originally placed on it. The counters should verify that the sealed bags have not been opened. The bank should be able to provide a private room to perform the count.

   A. All envelopes should be opened, and the amount enclosed should be accurately recorded on the envelope.

   B. All counters should remain in the presence of the funds at all times from the time the seal is broken until the count is concluded, the count sheet completed (see attached) and the deposit slip for the bank has been prepared. (See #7 below)

5. A count sheet should be completed and signed by all counters.

6. All envelopes, or in the absence of envelopes, copies of all checks, should be taken back to the parish by the bookkeeper to update census records. The bank should be able to provide access to a machine to make necessary copies.

7. A bank deposit slip should be prepared while at the bank, the total agreed to the count sheet (see #5), the funds deposited, a validated deposit slip secured, and the count sheet signed by all counters.

8. The "bookkeeper" should provide to the Pastor (or a designee who is "independent" of the bookkeeper) the bank validated deposit slip. The Pastor (or designee) should compare the total amount deposited per the validated deposit slip to the signed count sheet secured in #5 above.

9. At the conclusion of Mass, two or more individuals remove the offering basket to a secure area within the Church and place the funds into a bag provided by the bank that can be sealed in the presence of such individuals. The sealed bag should be placed in a parish safe or other secure location within the Church or its administrative offices until the next morning.

(If an overnight drop arrangement cannot be arranged with a bank, the following modifications/substitutes for #3 through #8 above should be followed)

10. On Monday morning, the Parish "bookkeeper" and one or more other Parishioners, Clergy or employees who are "independent" of the bookkeeper should secure the sealed (unopened) bags (one for each Mass) and count the funds. The bags should still contain the same seal as originally placed on them. The counters should verify that the sealed bags have not been opened.

    A. All envelopes should be opened, and the amount enclosed should be accurately recorded on the envelope.

    B. All counters should remain in the presence of the funds at all times from the time the seal is broken until the count is concluded, the count sheet completed (see attached) and the deposit slip for the bank has been prepared. (See #13 below)

11. A count sheet should be completed and signed by all counters. (Note: Volunteer counters need not remain at the Parish while the bank deposit is being made. A comparison of the total funds per the count sheet to the prepared deposit slip is sufficient)

12. All envelopes, or in the absence of envelopes, copies of all checks should be taken to the bookkeeper to update the census records.

13. A bank deposit slip should be prepared immediately, and the total deposit agreed to the count sheet by all counters. The deposit should be taken to the bank immediately.

14. Upon receipt from the bank, the "bookkeeper" should provide to the Pastor (or a designee who is "independent" of the bookkeeper) the bank validated deposit slip. The Pastor (or designee) should compare the total amount deposited per the validated deposit slip to the signed count sheet secured in #11 above.

15. If the Pastor wants the offertory counted on Sunday, steps #10 through #14 should be performed after the last Mass, except that step #13 should be modified to provide for delivery to the bank night deposit, or kept in a secure location in the Church or its offices until Monday morning.

16. Counters should be rotated periodically in this process.

Compensation of Lay Employees of the Church
Appendix V. Employee or Independent Contractor?

The mission of the Church requires the efforts of the ordained, the professed, and the laity. When the efforts are in the form of paid compensation to lay people, it is important to record and report the compensation properly. Two methods are prescribed by the Internal Revenue Service (IRS) to report compensation: Form W-2 for employees, and Form 1099-MISC for independent contractors. Once an employing entity determines the employment status of a lay worker, the reporting procedures are quite straightforward and perfunctory. The challenge lies in the determination of the employment status

At either extreme, there is little debate. A parish classifies a full-time lay worker with benefits (e.g., a maintenance worker, secretary, or school teacher) as an employee and thus withholds federal, state, and local taxes; withholds and matches Social Security (FICA) taxes; and reports compensation and withholdings on Form W-2. A parish that hires an outside service to repair the boiler considers the service to be an independent contractor and issues a check with no withholding. At the end of the calendar year, if such payments are made to non-corporate entities (usually individuals), are for services rendered (not for materials), and have accumulated to $600 or more for the year, then the parish will issue that person a Form 1099-MISC.

1. It is the in-between worker that becomes a matter of dispute: the once-a-week organist, part-time housekeeper, or volunteer youth worker to whom a stipend is paid. As a general rule, when in doubt, consider the worker an employee and issue Form W-2 for three reasons:

2. The worker generally prefers Form W-2. Usually unsophisticated in tax matters, workers do not want to file the extra forms required of an independent contractor, nor pay both sides of the Social Security tax (self-employment tax) and have no withholding throughout the year.

3. The IRS prefers Form W-2 because historically they have much greater compliance in tax payments with Form W-2 versus Form 1099-MISC. This results in greater scrutiny of tax returns for filers who receive Form 1099-MISC than those who receive Form W-2.

The government will get its money either way. The worker using Form 1099 - MISC must pay income tax and both sides of the Social Security tax. When Form W-2 is used instead, the parish pays one half of the Social Security tax. Knowing this, the parish and worker can agree on an adjusted wage rate reflecting the Social Security tax burden put upon the parish for issuing Form W-2.

However, there are legitimate reasons to accurately determine the employment status of a lay worker, rather than simply to issue a Form W-2. Perhaps the parish has no other employees and would like to avoid the added quarterly and annual reporting associated with withholding taxes if the parish considers the worker an employee. Or perhaps the worker prefers the independent contractor status for tax benefits, whether real or perceived. Preferences by the worker or parish will not govern the classification in themselves, but these may be reasons for a parish to ascertain the proper classification. Up through 1987 there was limited guidance to determine employment status, so such determinations were quite subjective. Then in 1987 the IRS announced:

As an aid to determining whether an individual is an employee under the common law rules, twenty factors have been identified as indicating whether sufficient control is present to establish an employer-employee relationship. The twenty factors have been developed based on an examination of cases and rulings considering whether an individual is an employee. The IRS lists the twenty factors in Revenue Ruling 87-41. Each factor's abbreviated title follows:

1. Instructions
2. Training
3. Integration
4. Services Rendered Personally
5. Hiring, Supervising, and Paying Assistants
6. Continuing Relationship
7. Set Hours of Work
8. Full Time Required
9. Doing Work on Employer's Premises
10. Order or Sequence Set
11. Oral or Written Reports
12. Payment by Hour, Week, Month
13. Payment of Business Expenses
14. Furnishing of Tools
15. Significant Investment
16. Realization of Profit or Loss
17. Working for More Than One Firm
18. Services Available to Public
19. Right to Discharge
20. Right to Terminate...

However, the IRS has in recent years decreased reliance on the twenty factors and instead increased emphasis on the three-category approach. The following excerpt from the IRS website(*www.irs.gov*) explains the new approach:

Where there is no controlling statute, a worker's status is determined by applying the common law test, which applies for purposes of FICA, FUTA, Federal income tax withholding, and the Railroad Retirement Tax Act. A worker's status under the common law test is determined by applying relevant facts that fall into three main categories: behavioral control, financial control, and the type of relationship itself. In each case, it is very important to consider all the facts - nosingle fact provides the answer.

Behavioral Control

These facts show whether there is a right to direct or control how the worker does the work. A worker is an employee when the business has the right to direct and control the worker. The business does not have to actually direct or control the way the work is done - as long as the employer has the right to direct and control the work. For example:

- ***Instructions***-If you receive extensive instructions on how work is to be done, this suggests that you may be an employee. Instructions can cover a wide range of topics, for example: how, when, or where to do the work, what tools or equipment to use, what assistants to hire to help with the work, and where to purchase supplies and services. If you receive less extensive instructions about what should be done, but not how it should be done, you may be an independent contractor. For instance, instructions about time and place may be less important than directions on how the work is performed.

- ***Training-*** If the business provides you with training about required procedures and methods, this suggests that the business wants the work done in a certain way, and you may be an employee.

Financial Control

These facts show whether there is a right to direct or control the business part of the work. For example:

- ***Significant Investment-***If you have a significant investment in your work, you may be an independent contractor. While there is no precise dollar test, the investment must have substance. However, a significant investment is not necessary to be an independent contractor.

- ***Expenses-***If you are not reimbursed for some or all business expenses, then you may be an independent contractor, especially if your unreimbursed business expenses are high.

- ***Opportunity for Profit or Loss-***If you can realize a profit or incur a loss, this suggests that you are in business for yourself and that you may be an independent contractor.

Relationship of the Parties

These are facts that illustrate how the business and the worker perceive their relationship. For example:

- ***Employee Benefits-***If you receive benefits, this is an indication that you are an employee. If you do not receive benefits, however, you could be either an employee or an independent contractor.

- ***Written Contracts-***A written contract may show what both you and the business intend. This may be very significant if it is difficult, if not impossible, to determine status based on other facts.

When applying these criteria to a particular employment scenario, a preponderance of factors usually emerges. However, in uncertain cases, employers have the option of filing Form SS-8: a form designed by the IRS that asks in essence the twenty questions outlined above. The IRS is usually not quick in responding to a Form SS-8 inquiry; and if the employment status is so uncertain, it is likely that the IRS will rule in favor of employee status.

Finally, diocesan entities often benefit from contributed services. A parishioner may volunteer to clean the church every week, or a carpenter may replace the windows and only charge for materials. These acts of charity are welcomed, but often the volunteer asks for a tax receipt for the contributed services. After all, the volunteer saved the church hundreds of dollars in labor costs, and the volunteer could have been making money elsewhere had he or she not been volunteering. While it is permissible to write a letter thanking the volunteer for donating his or her time that saved the church $500 in labor costs, it is not permissible to give the volunteer a tax receipt or include the value of the services on the volunteer's annual contribution statement. The value of contributed personal labor is *not deductible*

Appendix VI Compensation of Diocesan Priests
Dual Status: Employees for Income Tax Purposes;
Self-employed for Social Security Tax Purposes

Chapter III of the USCCB publication, Diocese Financial Issues, entitled Compensation of Priests and the Dual Status of Priests: Employees for Income Tax Purposes; Self-Employed for Social Security Tax (as condensed)

The issue of a priest's employment status for IRS reporting purposes has been one of considerable debate over the last twenty years. It is also the subject of an entire section in the tax manual for priests, Income Taxes for Priests Only, published by the National Federation of Priests' Councils.

This debate was started by Congress in 1937 when the Social Security system was created. In recognition of the constitutional doctrine of the separation of church and state, and not wanting to create an issue at the time, Congress declared that clergy were considered self-employed, therefore not eligible, nor required, to participate in the new system.

Then, in 1955, Congress declared that self-employed individuals were required to participate in the Social Security program, but, created special laws applicable to clergy. These laws exempted clergy from participation, however, allowed them to make an election to opt-in to the program as a self-employed individual. In 1968, Congress changed the law again to require clergy to participate as self-employed individuals, unless they opted-out based upon their personal religious convictions. So, in spite of these law revisions over the years, clergy have remained classified as self-employed for Social Security program purposes.

As a separate department in the United States government, the IRS did not debate a clergyman's classification as self-employed for Social Security purposes, but, declared that priests had the characteristics of employees in most, if not all, other aspects, therefore they should be classified as employees for Income Tax purposes. The IRS has pointed to the fact that a priest is paid a salary; they are provided employee benefits on a tax-exempt basis, such as health insurance and pensions; and, irrespective of some of the protections afforded to them under Church Law, they do report to their Bishops in many of the same ways that a lay employee reports to an employer.

In 1987, the IRS published Revenue Ruling 87-41 that established twenty factors to be used in determining the employment status of an individual. Based on these factors, it is apparent that the IRS would classify most, if not all diocesan priests, as employees as opposed to self- employed individuals. In recent years, the IRS has changed their approach to this determination by establishing a common law test that classifies the relevant facts into three categories: Behavioral Control; Financial Control; and, Relationship of the Parties. This common law approach is essentially the same as the approach taken in Revenue Ruling 87-41.

In 1995, the IRS issued its Audit Guidelines for Ministers, in which it states, "Only in those very limited cases ……such as in the case of a traveling evangelist……a Form 1099-MISC is appropriate." This is further indication that the IRS considers priests to be employees for income tax purposes, regardless of their Social Security tax status. From the middle to the late 1990's, when the IRS audited priests who filed their income tax returns as self-employed individuals, it typically reclassified them as employees for income tax purposes.

Appendix VII. Compensation of Religious

Members of religious orders who provide services to a diocesan employer (defined here to include the diocese and any affiliated entities that are listed in *The Official Catholic Directory* [OCD], i.e., the Kennedy Directory) are subject to distinct tax and reporting rules, primarily as a result of their vows of poverty.

Employment Classification

Status as a member of a religious order does not automatically determine employment classification. Rather, classification of a religious as an employee of a diocesan employer or as an independent contractor should be made by applying the common law tests as interpreted by the Internal Revenue Service (IRS). (See the section on "Compensation of Lay Employees of the Church.")

Taxation of Compensation

An individual religious is not "tax-exempt." Tax exemption applies, if at all, to the religious order qualifying under section 501(c) (3) of the Internal Revenue Code. Further, status as a member of a religious order does not automatically immunize from federal income and employment taxation the compensation paid to a religious who is performing services for a diocesan employer. Rather, the taxability of such compensation, including employee fringe benefits, if any, provided by the diocesan employer, is determined in accordance with the principles set forth in Revenue Ruling (Rev. Rul.) 77-290, 1977-2 C.B. 26.

Rev. Rul. 77-290

Under Rev. Rul. 77-290, a religious providing services to a diocesan employer will be considered an agent of his or her order and will not be liable individually for federal income or employment taxes on compensation paid by the diocesan employer, provided three criteria are met: (1) the religious must be subject to a vow of poverty; (2) the religious must be providing services for a diocesan employer listed in the OCD3 at the direction of his or her ecclesiastical superiors; and (3) the religious must remit the compensation to his or her religious order, which must be exempt from federal income tax under section 501(c)(3) of the Code. If the religious fails to meet any of these Rev. Rul. 77-290 criteria, the religious is taxable individually on compensation received.

Rev. Rul. 77-290 does not purport to determine the employment status of a religious providing services for a diocesan employer, and in no way does it preclude classification of a religious as an employee of a diocesan employer or the provision of customary employee benefits to religious who are employees.

Verifying Rev. Rul. 77-290 Requirements

It is incumbent on the diocesan employer to determine whether a member of a religious order meets all three criteria of Rev. Rul. 77-290 before suspending its general withholding and reporting obligations. The diocesan employer should verify that the individual is a member of a section 501(c)(3) religious order subject to a vow of poverty recognized by the Church. The diocesan employer should then verify that the individual's services have been authorized by his or her religious superior. These first two issues can be resolved in any reasonable manner, e.g., by correspondence with the member's religious superior. Section 501(c)(3) status should be verified by reference to the OCD. The diocesan employer should also verify that the compensation paid will be remitted to the religious order. This can be accomplished in one of several ways, listed below in order of preference: (1) by direct deposit to the bank account of the religious order; (2) by check

Verifying Rev. Rul. 77-290 Requirements (continue)

payable to the religious order; or (3) by check payable jointly to the religious order and the individual religious.

As a general rule, compensation paid directly to an individual religious will be taxable to the individual religious. However, in limited circumstances, diocesan employers may treat such compensation as qualifying under Rev. Rul. 77-290. In these circumstances, the diocesan employer should be convinced that there exists some legitimate impediment to the payment of compensation to the religious order directly as outlined above. In addition, the diocesan employer should obtain appropriate written documentation from the superior of the religious order certifying that compensation paid directly to the individual religious will be remitted to the religious order in accordance with the requirements of Rev. Rul. 77-290. This supporting documentation should be updated annually.

Reporting Compensation

The manner of reporting compensation of religious performing services for diocesan employers depends on its taxability. If the criteria of Rev. Rul. 77-290 are satisfied and compensation is not taxable to the individual religious, no reporting on Form W-2 or Form 1099 is required.

On the other hand, if the criteria of Rev. Rul. 77-290 have not been satisfied—e.g., if the diocesan employer has been unable to verify that compensation will be remitted to the religious order—then compensation is taxable to the individual religious and should be reported in the ordinary course. Thus, if the religious is taxable and is classified as an employee (see above) of the diocesan employer, compensation must be reported on Form W-2. If the religious is taxable and is classified as an independent contractor of the diocesan employer, compensation must be reported on Form 1099. No withholding is required with respect to independent contractors.

Notes

1. The term "religious order" as used herein refers to the IRS understanding of the term, as described in Rev. Proc. 91-20, 1991-1 C.B. 524. This would include both religious priests and lay men and women religious.

2. For purposes of Rev. Rul. 77-290, "employment taxes" refers to FICA and Medicare Taxes.

3. This also includes asterisked (domestic non-Group Ruling) listings in the OCD, since these are subject to the same standards of relationship to the Church as are ordinary Group Ruling listings in the OCD.

4. In fact, Rev. Rul. 77-290 *presumes* that the religious are employees of the entities described therein, since neither FICA nor income tax withholding would be at issue in the absence of status as an employee.

5. Any questions that arise concerning the nature or validity of the vow of poverty taken by a particular individual can be referred to a canon lawyer specializing in the field of religious life.

6. In practice, such situations will be rare. Mere insistence, without justification, that compensation be paid directly to the individual religious does not meet this standard.

7. Some diocesan employers may currently report compensation paid to nontaxable religious, generally in one of two ways: (1) issuance of a Form 1099 bearing the religious order's employer identification number (EIN); or (2) issuance of a Form W-2 bearing the Social Security number (SSN) of the religious employee. The first practice is unnecessary, particularly when the religious order is a corporation. The second practice is also unnecessary and may trigger IRS scrutiny. Although commercial payroll services may initially require issuance of a Form W-2 or Form 1099, with persistence and insistence they can be persuaded to modify their computer programs to accommodate the special needs of diocesan employers with respect to Rev. Rul. 77-290.

8. Reporting and tax withholding with respect to taxable religious will differ for religious priests and lay religious. The compensation of a taxable religious priest who is performing ministerial services should be reported in the same manner as that of diocesan priest employees. Under Treas. Reg. § 1.107-1(a), ministerial services include (1) performance of sacerdotal functions; (2) conduct of religious worship; (3) administration and maintenance of religious organizations and their integral agencies; and (4) performance of teaching and administrative duties at theological seminaries. Note that taxable priests performing ministerial services are treated as self-employed for Social Security tax purposes *even* though they are classified as employees for income tax purposes (see "Compensation of Priests and the Dual Tax Status of Priests" for further discussion). They are liable for SECA tax under section 1402 of the Code. No FICA taxes should be withheld. The compensation of a taxable religious priest who is *not* performing ministerial services, or of a religious who is not a priest, should be reported in the same manner as that of diocesan lay employees, with income and FICA tax withheld.

Medicare Secondary Payer

50.1 - Clarification of Current Employment Status for Specific Groups1 (Rev. 1, 10-01-03) A - Member of Religious Order B3-3329.3.D-E, A3-3491, A3-IM 3491, HO-263, SNF-336, HH-253, A3-3492.B.3.e (section d was deleted with a comment)

A member of a religious order whose members are required to take a vow of poverty is not considered to have current employment status with the religious order if the services he/she performs as a member of the order are considered employment by the order for Social Security purposes only. This is because the religious order elected Social Security coverage for its

members under section 3121(r) of the Internal Revenue Member of Religious Order Code. Thus, Medicare is primary payer to any group health coverage provided by the religious order.

This exception applies only to members of religious orders who have taken a vow of poverty. It does not apply to clergy or to any member of a religious order who has not taken a vow of poverty or to lay employees of the order. This exception applies not only to services performed for the order itself (such as administrative, housekeeping, and religious services), but also to services performed at the direction of the order for employers outside of the order provided that the outside employer does not provide the member of the religious order with its own group health plan coverage. A member of a religious order has current employment status with the outside employer as a result of providing services on behalf of the outside employer (an ongoing business relationship exists). If the outside employer provides group health plan coverage to the member of the religious order on the basis of that current employment status relationship, the usual Medicare Secondary Payer rules apply.

Medicare is the secondary payer to the group health plan of the outside employer if the outside employer has the requisite number of employees.

EXAMPLE 1

Sister Mary Agnes is a member of a religious order where members are required to take a vow of poverty. Sister Mary Agnes was assigned to teach at a church school in the Diocese of the Metropolis. The Diocese does not provide group health plan coverage to Sister Mary Agnes. The only group health coverage available to Sister Mary Agnes is provided by the religious order. Medicare is the primary payer for services provided to Sister Mary Agnes.

EXAMPLE 2

Sister Mary Teresa is a member of a religious order whose members are required to take a vow of poverty. Sister Mary Teresa was assigned to teach at a church school in the Diocese of Smallville. On the basis of her teaching relationship with the Diocese of Smallville, the Diocese provides group health plan coverage to Sister Mary Teresa. The group health plan provided by the Diocese of Smallville is the primary payer and Medicare is the secondary payer for services provided to Sister Mary Teresa.

Carriers should note that the exemption only applies to the working aged and disability provisions that base a group health plan's obligation to be a primary payer on a current employment status relationship. The exception does not apply to the End Stage Renal Disease (ESRD), workers compensation or liability and no-fault provisions.

Notes

Excerpted from the Medicare Secondary Payer (MSP) Manual which is published by the Center for Medicare and Medicaid Services, a federal agency within the U.S. Department of Health and Human Services.

Appendix VIII. Employee Registration Form/Employee Change Status Form

(To be completed in the Common Payroll system--contact the Human Resources Office)

Appendix IX. Income Tax Issues

The accounting treatment for income taxes is specified in Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Adherence to the guidance in SFAS No. 109 is required by generally accepted accounting principles (GAAP). The following is intended to provide general information about income tax issues (other than accounting treatment) that are relevant to dioceses in the United States.

USCCB Group Tax Exemption Ruling

Annually since 1946, the Internal Revenue Service (IRS) has issued to the United States Conference of Catholic Bishops (or, before the 2001 name change, the United States Catholic Conference) a group tax exemption ruling with respect to the Catholic organizations listed in *The Official Catholic Directory* (OCD) for a particular year ("Group Ruling"). The Group Ruling establishes (1) that organizations included in the OCD are exempt from federal income tax under section 501(c)(3) of the Code and from federal unemployment tax; and (2) that contributions to such organizations are deductible for federal income, gift, and estate tax purposes. The current Group Ruling is available on the USCCB website at www.usccb.org/ogc. Inclusion in the Group Ruling has no effect on an organization's liability for any federal excise taxes, nor does it automatically establish an organization's exemption from state or local income, sales, or property taxes. For more information on the Group Ruling, see the annual Group Ruling explanatory memo issued by OGC, as well as further discussion in the second section of this "Income Taxes" chapter.

Deductibility/Substantiation of Contributions

One of the primary benefits of section 501(c)(3) exemption is deductibility of contributions for federal income (§ 170), estate (§ 2055), and gift (§ 2522) tax purposes. Cash contributions by individuals to organizations listed in the OCD generally are deductible up to 50% of the donor's adjusted gross income (IRC § 170[b][1][A]), with a five-year carryover for any excess (IRC § 170[d][1]). Noncash contributions can have different limitations. Corporate gifts are deductible up to 10% of taxable income (IRC § 170[b][2]), with a five-year carryover (IRC 170[d][2]).

In order to be deductible, a payment must first qualify as a *gift*, which is defined as a voluntary transfer of money or property without receipt of or expectation of a commensurate return benefit. Thus, for example, the payment of tuition, whether made directly to a school or to a church operating the school, is not deductible. In addition, payments made in various fundraising contexts may or may not be deductible, depending on whether goods or services are received in return. For example, payment for a purchase at a charity auction will be deductible only to the extent the payment exceeds the fair market value (FMV) of goods or services received in return. Payments for charity raffle tickets are not deductible, since the amount paid is not a gift, but rather payment for the chance to win whatever prize is being offered.

In response to abuses with respect to charitable contributions, in 1993 Congress enacted enhanced substantiation rules applicable to contributions of $250 or more. Section 170(f)(8) provides that no contribution of $250 or more will be deductible unless the donor obtains, prior to filing his or her tax return, written acknowledgment from the donee charity verifying the amount of the contribution and whether any goods or services were received in return. If so, such goods or services must be identified and must be valued by the donee charity. If the benefits received consist solely of intangible religious benefits, a statement to that effect must be included. Although the burden of requesting appropriate acknowledgment is placed on the donor and not imposed on the donee charity, charities that knowingly provide false written substantiation statements may be subject to penalties for aiding and abetting an understatement of tax liability under section 6701

Certain payments are considered *quid pro quo* contributions - namely, they are made partly as a gift and partly in consideration for goods or services furnished to the donor. An exception is provided for payments made to an exclusively religious organization in return for which the donor receives solely intangible religious benefits. Under section 6115, charitable organizations must inform donors in writing that *quid pro quo* contributions in excess of $75 are deductible only to the extent that they exceed the value of any goods or services provided by the charitable organization in return, and the organizations must provide a good-faith estimate of the value of such goods or services. This disclosure must be made either at the time of solicitation or upon receipt of the *quid pro quo* contribution. Penalties are imposed on any charity that fails to make appropriate disclosure under section 6115 at $10 per contribution, capped at $5,000 per particular fundraising event or mailing. Typical *quid pro quo* contribution situations include charity golf tournaments, auctions, dinner dances, and so forth, where part of the payment constitutes a contribution. In such situations, the disclosure statement may be placed in solicitation materials, in event programs or brochures, or on the face of event tickets - i.e., in any reasonable manner likely to come to the attention of the donor.

Additional substantiation requirements are imposed with respect to certain contributions. Contributors of noncash gifts valued at $500 or more must complete Form 8283 and attach it to Form 1040. Contributors of noncash gifts valued at $5,000 or more (other than gifts of publicly traded securities) must

- Obtain a qualified appraisal and submit an appraisal summary with the Form 8283 attached to Form 1040, *and*
- Have the donee charity complete and return to the donor the "Donee Acknowledgment Section" (in doing so, the donee charity is *not* vouching for the appraised value)

The donee charity is required to report to the IRS on Form 8282 if such contributions are subsequently sold or otherwise disposed of within two years of receipt.

Lobbying Activities

Section 501(c)(3) organizations may not engage in more than insubstantial lobbying activities. Lobbying includes contacting, or urging the public to contact, members of a legislative body for the purposed of proposing, supporting, or opposing legislation or advocating adoption or rejection of legislation (Treas. Reg. § 1.501[c][3]–1[c][3][ii]). Legislation includes any action by Congress, by a state or local legislative body, or by the public in a referendum, initiative, constitutional amendment, or similar procedure (Treas. Reg. § 1.501[c][3]–1[c][3][ii]). No distinction is made between "good" and "bad" legislative activity. (See Rev. Rul. 67-293, 1967-2 C.B. 185.)

The IRS has never defined "insubstantial" in this context or identified a percentage safe harbor for legislative activities. Court cases suggest a 5 to 15% range, but the IRS comfort zone is at the lower end. See *Murray Seasongood v. Commissioner* (227 F.2d 907 [6th Cir. 1955]), which ruled that less than 5% time and effort is not substantial; and *Haswell v. U.S.* (500 F.2d 1133 [Ct. Cl. 1974], cert. denied, 419 U.S. 1107 [1975]), which ruled that 16 to 17% of a budget was substantial. A more specific elective lobbying standard was enacted in 1976 as section 501(h) of the Code. Churches, conventions of churches, and integrated auxiliaries at their own request were made ineligible (IRC §§ 501[h][5] and

4911[f][2]).

Political Activities

A section 501(c)(3) organization may not engage in any political campaign activity. Unlike the lobbying limitation, this is an absolute prohibition. The statute states that 501(c)(3) organizations may not "participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office." The prohibition applies only to candidates for elective public office. Although very little additional interpretation is provided in the regulations, the penalties for violating the prohibition are severe. In addition to loss of tax-exempt status and deductibility of contributions, two-tiered excise taxes may be imposed on the exempt organization (10% and 100%) and on the organization manager (2-1/2% and 50%) for political expenditures (IRC § 4955). In flagrant cases, the IRS may seek an injunction against further political expenditures (IRC § 7409[a]) and immediate determination and assessment of income and excise taxes (IRC § 6852). For more information, check the OGC website, *www.usccb.org/ogc*.

Intermediate Sanctions

In 1996, Congress enacted section 4958 of the Internal Revenue Code, the so-called "intermediate sanctions" provisions, which were designed to provide the IRS with a sanction other than revocation of exemption for non-fair market value transactions with insiders, defined in section 4958 as "excess benefit" transactions. Section 4958 applies to transactions occurring on or after September 14, 1995 (with the exception of transactions pursuant to certain binding written contracts in effect before that date). In 1998, proposed regulations were issued to provide interpretive guidance under section 4958. Public hearings were held in March 1999. In January 2001, the IRS issued temporary regulations; and in January 2002, the IRS issued final regulations. Some of the major provisions of the final regulations are summarized below.

Applicable Tax-Exempt Organizations

Section 4958 applies to any organization that, without regard to any excess benefit, would be described in section 501(c)(3) or (c)(4) and exempt from tax under section 501(a) (EO, or "exempt organization"), at any time during a five-year period ending on the date of the excess benefit transaction ("look back period"). An organization is described in section 501(c)(3) for purposes of section 4958 only if it provides notice under section 508 (filing Form 1023), unless it is otherwise described in section 501(c)(3) and is specifically excluded from application of section 508. Accordingly, churches, their integrated auxiliaries, and conventions and associations of churches—which are statutorily excepted from section 508—are nonetheless subject to section 4958.

Excise Taxes Imposed

Section 4958 imposes excise taxes on any excess benefit resulting from an excess benefit transaction between the EO and a disqualified person (DP). Significantly, these taxes are not imposed on the organization. Rather, the DP is liable for a 25% first-tier tax, and for a 200% second-tier tax, if the excess benefit transaction is not corrected within the correction period. In addition, a tax equal to 10% of the excess benefit (up to a maximum tax of $10,000) is imposed on an organization manager (OM) who knowingly participates in an excess benefit transaction, unless participation was not willful and was due to reasonable cause. An OM will not be liable for tax if he or she opposed the transaction. If more than one person is liable for tax under section 4958, all such persons are jointly and severally liable.

"Disqualified Person" Defined

Section 4958 defines a "disqualified person" as any person who was in a position to exercise substantial influence over the affairs of the organization at any time during a five-year lookback period ending with the date of the transaction. The term also encompasses certain members of the DP's family and certain 35%-controlled entities.

Persons Having Substantial Influence. The final regulations state that individuals holding any of the following powers, responsibilities, or interests are in a position to exercise substantial influence over the affairs of an EO: (1) voting members of the governing body; (2) individuals who, regardless of title, have ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of an EO (persons serving as president, chief executive officer, or chief operating officer have such responsibility unless they demonstrate otherwise); and (3) individuals who, regardless of title, have ultimate responsibility for managing the finances of an EO (persons serving as treasurer or chief financial officer have such responsibility unless they demonstrate otherwise).

Persons Deemed Not to Have Substantial Influence. The final regulations state that the following are deemed not to have substantial influence over the affairs of an EO: (1) organizations exempt under section 501(c)(3); (2) certain section 501(c)(4) organizations; and (3) employees receiving direct or indirect economic benefits of less than the "highly compensated employee" amount in section 414(q)(1)(B)(i) ($90,000 for 2003), who are not otherwise classified as DPs by virtue of position, family relationship, or substantial contribution.

In all other cases, whether an individual is a DP depends on all relevant facts and circumstances. The final regulations clarify that an organization can be a DP.

"Organization Manager" Defined

An "organization manager" is defined as any officer, director, or trustee of an EO, or any individual having similar powers with respect to the EO, regardless of title. An officer includes an individual who (1) is so designated in organizational documents, or (2) "regularly exercises general authority to make administrative or policy decisions on behalf of the organization." The final regulations provide that independent contractors, acting solely in their capacity as attorneys, accountants, or investment managers/advisors, are not officers. In addition, individuals who are not officers, directors, or trustees, but who serve on a committee of an EO's governing body that is attempting to invoke the rebuttable presumption of reasonableness (discussed below) based on the committee's actions, are considered OMs for purposes of section 4958.

"Excess Benefit Transaction" Defined

The final regulations define an "excess benefit" as the amount by which the value of the economic benefit provided by an EO directly or indirectly to or for the use of any DP exceeds the value of the consideration (including the performance of services) received by the EO for providing such benefit. With certain exceptions explained below, all consideration and benefits exchanged between a DP and an EO (including any controlled entities) must be taken into account in order to determine whether an excess benefit transaction has occurred. The final regulations provide that, in determining the reasonableness of compensation that is paid (or vests, etc.) in one year, services performed in prior years may be taken into account.

Rebuttable Presumption of Reasonableness. Consistent with the legislative history of section 4958, the final regulations establish a rebuttable presumption whereby compensation paid by an EO to a DP, or the transfer of property or other benefit between the EO and a DP, will be presumed to be at FMV, provided three conditions are satisfied: (1) the compensation or terms of transfer are approved in advance by the organization's governing body (or a committee of the governing body) composed entirely of individuals who do not have a conflict of interest with respect to the arrangement or transaction; (2) the governing body or committee obtained and relied upon appropriate data as to comparability prior to making its determination; and (3) the governing body or committee adequately and concurrently documented the basis for its determination. The IRS may rebut the presumption only if it develops sufficient contrary evidence to rebut the probative value of the comparability data relied upon by the governing body or committee.

Certain Economic Benefits Disregarded. All fringe benefits that are excluded from income under section 132 (except certain liability insurance premiums, payments, or reimbursements) are disregarded for purposes of section 4958. The final regulations also disregard expense reimbursements paid under an accountable reimbursement plan that meets the requirements of section 1.62-1(c). Thus, as is the case with section 132(d) on working condition fringe benefits, the existing standards under section 162 and 274 will apply to determine whether employee expense reimbursements are disregarded or should be treated as part of a DP's compensation for purposes of determining reasonableness under section 4958.

Written Contemporaneous Substantiation. An EO must provide written substantiation that is contemporaneous with the transfer of benefits at issue in order to provide clear and convincing evidence of its intent to treat benefits provided to a DP as compensation for services. To satisfy this requirement, either (1) the EO must report the economic benefit as compensation on an original or amended federal tax return with respect to the payment, e.g., Form W-2 or 1099, filed prior to commencement of an IRS examination; or (2) the DP must report the benefit on his or her original or amended federal tax return, e.g., Form 1040, also filed prior to commencement of an IRS examination.

If a benefit is not reported on a return filed with the IRS, other written contemporaneous evidence, e.g., employment contract, may be used to demonstrate that the appropriate decision-making body or an authorized officer approved a transfer as compensation for services in accord with established procedures. The final regulations clarify that the term "established procedures" refers to the EO's usual practice for approving compensation and does not require that an EO have a formal written procedure for approving compensation.

Correction. An excess benefit transaction is corrected by undoing the excess benefit to the extent possible and by taking any additional measures necessary to place the EO in a financial position not worse than that in which it would be if the DP were dealing under the highest fiduciary standards. The correction amount equals the sum of the excess benefit and the interest thereon. Generally, a DP corrects an excess benefit by making a payment in cash or cash equivalents (not a promissory note) to the EO equal to the correction amount. However, with the agreement of the EO, the DP may make correction by returning specific property previously transferred in the excess benefit transaction. The DP will be treated as making a payment equal to the lesser of the following: either the property's FMV determined on the date the property is returned or the FMV determined on the date the excess benefit transaction occurred. If such payment is not equal to the correction amount, the DP must make additional cash payment to the EO in the amount of the difference. If the DP makes payment of less than the full correction amount, the 200% tax is imposed only on the unpaid portion.

The final regulations clarify the rules governing correction when an EO no longer exists or is no longer tax-exempt by requiring that another section 501(c)(3) organization receiving the correction amount be a publicly supported charity that has been in existence as such for a continuous period of at least sixty

calendar months ending on the correction date. This time-in-existence requirement is designed to prevent a DP from creating a new EO to receive the correction amount. The final regulations also require that the organization receiving the correction amount not allow the DP to make or recommend any grants or distributions by the organization. Finally, the DP may not also be a DP with respect to the organization receiving the correction amount.

Special Rule for Churches

The final regulations provide that the church audit procedures under section 7611 of the Internal Revenue Code will be used in initiating and conducting any IRS inquiry or examination into whether an excess benefit transaction has occurred between a church and a DP. The reasonable belief required to initiate a church tax inquiry will be satisfied if there is a reasonable belief that taxes under section 4958 are due from a DP with respect to a transaction involving a church.

Embezzlement

Any economic benefit received by a DP (who by definition has substantial influence) from the assets of an EO is considered to be provided by the EO, even if the transfer of the benefit was not authorized under the regular procedures of the organization. The practical result of this rule is that funds embezzled by a DP generally constitute excess benefit transactions. The final regulations clarify that in no event will an economic benefit that a DP obtains by theft or fraud be treated as consideration for the performance of services.

Substantive Exemption Requirements Still Apply

The final regulations verify that section 4958 does not affect the substantive requirements for exemption under sections 501(c)(3) or (4), including the requirements that the EO be organized and operated exclusively for exempt purposes and that no part of the net earnings inure to the benefit of any private shareholder or individual. Thus, regardless of whether a transaction is subject to excise taxes under section 4958, existing exemption principles and rules apply (e.g., a transaction that is not subject to section 4958 because of the initial contract exception may still jeopardize the EO's exempt status). The preamble to the temporary regulations indicated that the IRS would exercise its administrative discretion in enforcing sections 4958, 501(c)(3), and 501(c)(4) in accordance with the direction provided in the legislative history, and would publish guidance concerning factors it will consider with respect to revocation of exemption in excess benefit transaction situations. Until such time, the IRS will consider all facts and circumstances in the administration of section 4958. (See Final Regulations on Excise Taxes on Excess Benefit Transactions, 67 Fed. Reg. 3076 [January 23, 2002].)

Filing Requirements for Form 990

Under section 6033 of the Code, organizations exempt from tax under section 501(c)(3) are required to file Form 990 annually, unless they qualify either for a mandatory (in statute) or discretionary (by authority of IRS commissioner) exception under section 6033(a)(2). Organizations included in the Group Ruling are *not* automatically relieved of the Form 990 filing requirement. Organizations required to file Form 990 must do so by the fifteenth day of the fifth month following the close of the fiscal year. There are, however, numerous exceptions to the Form 990 filing requirement available to churches and their affiliated organizations, including the following:

- Churches (IRC § 6033[a][2][A][i])
- Conventions or associations of churches (IRC § 6033[a][2][A][i])

Filing Requirements for Form 990 (continue)

- Integrated auxiliaries of churches (IRC § 6033[a][2][A][I]; Treas. Reg. § 1.6033-2[h]). To qualify as an integrated auxiliary of a church, an organization must be described in section 501(c)(3), be other than a private foundation under section 509(a), and be considered "internally supported" by a church. An organization will be considered internally supported unless it *both*
    - Offers admissions, goods, services, or facilities for sale, other than on an incidental basis, to the general public (except goods, services, or facilities sold at a nominal charge or substantially below cost), *and*
    - Normally receives more than 50% of its support from a combination of governmental sources; public solicitation of contributions (such as through a community fund drive); and receipts from the sale of admissions, goods, performance of services, or furnishing of facilities in activities that are not unrelated trades or businesses.
- Exclusively religious activities of religious orders (IRC § 6033[a][2][A][iii]). The Code does not define the term "religious order." However, Rev. Proc. 91-20, 1991-1 C.B. 524, sets forth the characteristics used by the IRS to determine whether an organization qualifies as a religious order.
- Public charities with annual gross receipts normally less than $25,000.
- Organizations that finance, fund, or manage church assets or maintain church retirement insurance programs, as well as organizations controlled by religious orders that finance, fund, or manage assets used for exclusively religious activities (Rev. Proc. 96-10, 1996-1 C.B. 577)
- Interchurch organizations of local units of a church (Treas. Regs. § 1.60332[g][1][i])
- Mission societies sponsored by or affiliated with one or more churches or church denominations, more than half of whose activities are conducted in or directed at persons in foreign countries (Treas Regs. § 1.6033-2[g][1][iv])
- Schools below college level affiliated with church or operated by religious order (Treas. Regs. § 1.6033-2[g][1][vii])

Penalties. The penalty for failure to file Form 990, or for failure to include all required information, is $20 per day for each day the failure continues, up to a maximum penalty per return of either $10,000 or 5% of the organization's gross receipts, whichever is less. Organizations with annual gross receipts in excess of $1 million are subject to penalties of $100 per day, up to a maximum of $50,000 per return (IRC § 6652[c][1][A]). In addition, penalties of $10 per day may be imposed on managers who fail to comply with an IRS demand to file Form 990 (IRC § 6651[c][1][B]).

Disclosure Requirements

Since 1987, section 6104(d) of the Internal Revenue Code has required tax-exempt organizations—including section 501(c)(3) organizations to which the Form 990 filing requirements apply—to allow public inspection of their three most recent Form 990s, as well as their applications for recognition of tax exemption, Form 1023, during normal business hours at their main offices as well as regional offices having three or more employees. The impact on churches and their

Disclosure Requirements (continue)

affiliated organizations has been limited, since organizations covered under a Group Ruling do not file their own Form 1023, and since many are exempt from the Form 990 filing requirement.

The Taxpayer Bill of Rights 2 of 1996 amended section 6104(d) of the Code to require tax-exempt organizations to comply with requests made in writing or in person for copies of their applications for exemption, Form 1023, and for their three most recent Forms 990. An exempt organization may not make any charge other than a reasonable fee for reproduction and actual postage costs, no more than the per-page copying charges applied by the IRS: currently $1 for the first page and $0.15 per page thereafter. Response must be made the same day to requests made in person, and within thirty days for written requests. There are special anti-harassment rules and provisions for making documents available through posting on the Internet.

The USCCB did not file an application for exemption (Form 1023), so there is no application that the USCCB or any organization covered under the Group Ruling must make available for inspection or copying. Each organization covered under the Group Ruling is required to provide for inspection or copying only the page(s) on which it appears in the current OCD. If a covered organization does not have a copy of the current edition of the OCD, it has two weeks in which to obtain a copy of the appropriate page(s) in order to comply with the provisions of section 6104(d). Organizations covered under the Group Ruling that file Form 990 are subject to the general rules regarding disclosure of annual information returns. For more information, contact the OGC.

Penalties. The penalty for failure to provide public inspection or copying of Form 990 is $20 per day up to $10,000 per return (IRC § 6652[c][1][C]); and the penalty for failure to provide public inspection or copying of Form 1023 is $20 per day (IRC § 6651[c][1][D]). In addition, the penalty for willful failure to provide inspection or copies of documents under section 6104(d) is $5,000 with respect to each Form 990 or Form 1023 (IRC § 6685).

Filing Requirements for Form 5578

Rev. Proc. 75-50, 1975-2 C.B. 587, sets forth notice, publication, and record keeping requirements regarding racially nondiscriminatory policies that must be complied with by private schools, including church-related schools, as a condition of establishing and maintaining exempt status under section 501(c)(3) of the Code. Under Rev. Proc. 75-50, private schools are required to file an annual certification of racial nondiscrimination with the IRS. For private schools not required to file Form 990, the annual certification must be filed on Form 5578, Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax. Form 5578 must be filed by the fifteenth day of the fifth month following the close of the fiscal year. Form 5578 may be filed individually by school or by the diocese on behalf of all its diocesan schools.

Unrelated Business Income Tax (UBIT)

Although organizations included in the Group Ruling are exempt from federal income tax, they are subject to tax on the income from any unrelated trade of business in which they regularly engage. Unrelated business income is governed by sections 511-514 of the Internal Revenue Code. UBIT is imposed at the normal corporate rates. A Form 990-T must be filed if an organization has gross income from unrelated trade or business of $1,000 or more, regardless of whether tax is due or whether the organization is required to file Form 990. The Form 990-T must be filed no later than the fifteenth day of

Unrelated Business Income Tax (UBIT) (continue)

the fifth month after the close of the organization's tax year (IRC § 6072[e]). If taxes are owed, organizations are expected to file quarterly estimated income tax returns.

An "unrelated trade or business" is as follows: (1) a trade or business as defined under section 162 of the Code (generally, any activity carried on for the production of income from the sale of goods or the performance of services); (2) one that is regularly carried on; and (3) one that is not substantially related to an organization's exempt purposes. The IRS applies a "fragmentation rule" to classify different aspects of what might otherwise appear to be a unitary business endeavor as being either related or unrelated. For example, the sale of advertising in an otherwise exempt educational periodical is considered a trade or business, which will generally be unrelated to its exempt purposes

To be considered "regularly carried on," a trade or business must exhibit "frequency and continuity" and be carried on in a manner similar to its commercial counterpart (Treas. Reg. § 1.513-1[c][1]). In order to qualify as "related," IRS requires a substantial causal relationship between the activity and an organization's exempt purposes (Treas. Reg. § 1.513-1[d][2]). The fact that an organization uses funds derived from its unrelated business activity in order to further its exempt programs does not convert an unrelated activity into a related one. Further, even if an activity relates to exempt purposes, it may be carried on to an extent greater than necessary to achieve those purposes. In such situations, income derived from excess activity will be subject to unrelated business income tax.

There are a number of exceptions to the UBIT rules, including the following:

- ***Volunteer Exception.*** This exception applies when substantially all of the work in a particular activity is performed by volunteers (IRC § 513[a][1]). The IRS's unofficial standard for "substantially all" is 85%. This exception typically applies to activities like church raffle, bingo games, and other fundraisers, although many such activities could also avoid being characterized as subject to UBIT because they are not regularly carried on.

- ***Convenience Exception.*** This exception applies to any trade or business carried on primarily for the convenience of its members, students, patients, officers, or employees (IRC § 513[a][2]). Classic examples of this exception include the hospital pharmacy sales made to patients, the sale of books by a university bookstore to students, sales in hospital gift shops, and laundry and vending operations provided for student use.

- ***Donated Merchandise and Low Cost Item Exceptions.*** The donated merchandise exception applies to the sale of merchandise that has been received as a contribution or gift (IRC § 513[a][3]). This exception applies to thrift stores operated by churches and other charitable organizations. The Code also contains an exception for the distribution of low-cost items incident to charitable solicitations. If a church mails unrequested, low-cost items as part of a fundraising effort, the church is not liable for UBIT on the income received (IRC § 513[h][1][B]). The dollar amount is indexed for inflation and changes each year.

- ***Mailing List Exception.*** Section 513(h)(1)(B) of the Code provides that income from the rental or exchange of mailing lists between or among section 501(c)(3) organizations is not subject to UBIT. The IRS has taken the position that rentals or exchanges with non-501(c)(3) organizations is subject to UBIT. However, after a string of litigation losses, the IRS will agree that properly structured licensing agreements for the use of mailing lists can generate non-taxable royalty income (see below).

Exceptions to the UBIT rules (continue)

- ***Bingo and Gambling Activities Exception.*** An important UBIT exception for many churches and related entities is the bingo exception, which applies to bingo games where participants place wagers, winners are determined, and prizes are distributed in the presence of all persons placing wagers in the game (IRS § 513[f]). The bingo exception does *not* apply to scratch-off bingo cards or to other forms of "walk-away" games. Since 1986, non-bingo gambling activities have been subject to UBIT, except in North Dakota (IRS Announcement 89-138, 1989-45 I.R.B. 41 [November 6, 1989]). Thus, except in North Dakota, income from charitable gambling like keno, pull tabs, lotteries, and "pickle jars" are subject to UBIT unless one of the other UBIT exceptions applies—e.g., for activities not regularly carried on or for the volunteer exception.

- ***Miscellaneous Exceptions.*** There are also UBIT exceptions for qualified convention and trade show activities conducted by section 501(c)(3), (c)(4), (c)(5), and (c)(6) organizations, and for certain services, including data processing, food services, and laboratory services provided at cost to hospitals with one hundred or fewer beds (IRC §§ 513[d], [e]).

In addition to the above exceptions to the definition of unrelated trade or business, the Code provides certain modifications to the computation of UBI, primarily for passive income sources. Thus, although unrelated, income from certain sources will be excluded from the computation of unrelated business income. The major modification categories under section 512(b) include dividends, interest, annuities, rents, and royalties.

- ***Royalties.*** A "royalty" is a payment for the use of a valuable intangible property right, e.g., use of an exempt organization's name and logo. Payments for services provided by the organization are not considered royalties (Rev. Rul. 81-178, 1981 C.B. 135). Royalties are not included in the computation of unrelated business income (IRC § 512[b][2]). The scope of the royalty exception has been unclear for the past several years, particularly in the context of affinity credit card and similar arrangements. However, after a string of litigation losses, IRS determined in late 1999 to stop litigating affinity card and mailing list rental cases except where the factual record clearly established that the exempt organization was providing more than incidental services in exchange for payments received. Thus, income from an exempt organization's licensing of the use of its name, logo, mailing lists, or other valuable intangible property rights will generally be treated as nontaxable royalty income, provided that no more than incidental services—i.e., those inherent in and necessary to the nature of the arrangement—are provided in return.

- ***Rents from Real Property.*** Rents from real property are not subject to UBIT under section 512(b)(3) of the Code. Rents from personal property rented with real property may also be exempt provided that the rent attributable to personal property is no more than 10% of the total.

If 10 to 50% of the rent is attributable to the rental of personal property, then a pro rata share of the rental income will be subject to UBIT. However, if more than 50% of the rent is attributable to personal property, then the modification is lost and the entire rental amount will be taxed.

Further, an exempt organization may not provide services in connection with the rental of real property, with the exception of services customary in connection with the rental of space: such as light, heat, trash collection, and cleaning of common areas. This issue of services often arises in the context of retreat houses and parking lots. For example, if an exempt organization rents its parking lot to a third party, which is responsible for all aspects of its operation, the income is considered the rental of real property not subject to UBIT. If, on the other hand, a church rents certain spaces in its parking lot during the week for use by nearby business people, these rents will generally be subject to UBIT. They

do not qualify for the rental of real property exception because the church remains responsible for lot maintenance, snow removal, signs, barriers, security, line painting, etc. (See, e.g., PLR 9301024 [October 15, 1992].) In the retreat house situation, frequently church organizations rent excess capacity in their facilities for business retreats, wedding receptions, and the like. Because a full range of services is typically provided in such situations, including maid service, food service, etc., it is not considered the rental of real property, but rather is more analogous to hotel operations.

- ***Sales or Exchanges.*** Under section 512(b)(5), all gains or losses from the sale, exchange, or other disposition of property is excluded from the computation of UBIT, with the exception of stock in trade or other property that would be classified as inventory, and property held primarily for sale to customers in the ordinary course of trade or business.

There are two major exceptions to the exclusions from UBIT under section 512(b) outlined above that render income taxable despite the section 512(b) modifications:

1. ***Debt-Financed Income.*** Under the provisions of section 514 of the Code, income that would otherwise be excluded from taxation under section 512(b)(1), (2), (3), and (5) (i.e., dividends, interest, royalties, rents and certain gains and losses from the sale of property) may nonetheless be subject to UBIT if it is subject to acquisition indebtedness—i.e., was acquired or improved with borrowed funds. Unrelated debt-financed income from such property is taxable in proportion to its acquisition indebtedness.

   Certain exceptions to the debt-financed income rules are relevant to church property. First, where substantially all (at least 85%) of the property's use is substantially related (aside from the need for funds) to the organization's exempt purposes, it is not treated as debt-financed property (IRC § 514[b][1][A]). Second, where property is owned by one exempt organization and is used by certain related organizations, it is not treated as debt-financed property to the extent that the property is used by either organization in furtherance of its exempt purposes (IRC § 514[b][2]).

   Third, under the "neighborhood land rule" exception, if an organization acquires real property and intends to convert it to use for exempt purposes within ten years, the property will not be treated as debt-financed property if it is in the neighborhood of other property used by the organization for exempt purposes and if the intent to use the property for exempt purposes within ten years is not abandoned (IRC § 514[b][3][A]). Note, however, that section 514(b)(3)(C)(i) vitiates the neighborhood land rule exception with respect to any structure on the land, when it is acquired, that is not required to be removed or demolished as part of the conversion. Special consideration is given to churches and conventions or associations of churches. Among other things, a fifteen-year period applies instead of the regular ten-year period, and the requirement that the acquired land be in the neighborhood of other property used for exempt purposes is eliminated (IRC § 514[b][3][E]).

2. ***Controlled Subsidiary Exception.*** Section 512(b)(13), which was significantly revised in 1997, provides that rent, royalty, annuity, and interest income, which is generally excluded from unrelated business taxable income, is not so excluded if it is received from a controlled subsidiary of a tax-exempt organization. Under section 512(b)(13) prior to 1997, a controlled subsidiary was defined as 80% controlled by the tax-exempt parent organization. The control test did not incorporate any indirect ownership rules, so that rents, royalties, annuities, and interest from second-tier subsidiaries generally did not constitute unrelated business taxable income to the tax-exempt parent organization.

In an attempt to thwart tax-exempt organizations' attempts to elude UBIT on amounts received from subsidiary organizations, Congress lowered the threshold for "control" from 80% to the current 50%. With respect to stock subsidiaries, "control" means ownership by vote or value of more than 50% of the stock. For partnerships or other entities, "control" means ownership of more than 50% of the profits, capital, or beneficial interests. In addition, the constructive ownership rules of section 318 of the Code were made applicable to section 512(b)(13). As a result, a tax-exempt parent organization will be considered to control a subsidiary in which it holds, directly or indirectly, more than 50% of the voting power or value. Any rent, royalty, annuity, or interest received by an exempt organization from its controlled entity will be unrelated business taxable income to the extent that the payment reduces the net unrelated income or increases the net unrelated loss of the controlled entity.

Corporate Sponsorship Regulations

The Taxpayer Relief Act of 1997 amended the Internal Revenue Code to add section 513(i), which provides that the receipt of qualified sponsorship payments by an exempt organization subject to tax imposed under section 511 of the Code does not constitute receipt of income from an unrelated trade or business. Section 513(i) applies to payments solicited or received after December 31, 1997. In March 2000, the IRS issued proposed regulations interpreting section 513(i). The IRS has issued final regulations under section 513(i), which are effective as of April 25, 2002, and are applicable for payments solicited or received after December 31, 1997.

Applicability

The final qualified sponsorship payment regulations apply to the following: single events conducted by an exempt organization (e.g., a bowl game, TV show, or walkathon); a series of events (e.g., an athletic tournament or concert series); or an activity conducted over a period of time (e.g., an art exhibit). It is irrelevant whether the sponsored event is substantially related to the exempt organization's tax-exempt purpose. The qualified sponsorship provisions do not apply to payments made in connection with exempt organization trade shows (governed by section 1.513-3 of the regulations) or to income derived from the sale of advertising or acknowledgements in exempt organization periodicals (governed by section 1.512[a]-1[f]). A "periodical" is defined as "regularly scheduled and printed material published by or on behalf of the exempt organization that is not related to and primarily distributed in connection with a specific event conducted by the exempt organization." The final regulations clarify that printed material includes material that is published electronically.

Qualified Sponsorship Payments

The final regulations define a "qualified sponsorship payment" as a payment made by any person engaged in a trade or business for which there is no expectation or arrangement that the payer (or persons designated by the payer) will receive any substantial return benefit from the exempt organization. "Payment" means the payment of money, transfer of property, or performance of services.

Substantial Return Benefit

Substantial return benefit is defined as any benefit *other than* (1) a use or acknowledgment or (2) certain disregarded benefits. With respect to the latter, the final regulations delete the $79 cap (the 2002 inflation-adjusted figure) found in the proposed regulations, so that benefits may be disregarded if the aggregate fair market value of all benefits provided to the payer (or persons designated by the payer) is not more than 2% of the payment. If the aggregate fair market value of the benefits exceeds

2%, then (except to the extent that the benefit constitutes an acknowledgment) the entire fair market value of such benefits, not merely the excess amount, is a substantial return benefit. Benefits to the payer (or persons designated by the payer) may include the following: advertising; exclusive provider arrangements; goods, facilities, services, or other privileges; and exclusive or non-exclusive rights to use an intangible asset (trademark, patent, logo, etc.) of the exempt organization

Use or Acknowledgment

For purposes of section 513(i), a substantial return benefit does not include the use or acknowledgment of the name, logo, or product line of the payer's trade or business. Use or acknowledgment does not include advertising but may include the following: exclusive sponsorship arrangements; logos and slogans that do not contain qualitative or comparative descriptions of the payer's products, services, facilities, or company; a list of the payer's locations, telephone numbers, or Internet address; a value-neutral description, including displays or visual depictions, of the payer's product line or services; and the payer's brand or trade names and product or service listings. Logos or slogans that are an established part of the payer's identity are not considered to contain qualitative or comparative descriptions

Advertising

For purposes of section 513(i), "advertising" means any message or other programming material that is broadcast or otherwise transmitted, published, displayed, or distributed, and that promotes or markets any trade, business, service, facility, or product. Advertising includes messages containing the following: qualitative or comparative language; price information or other indications of savings or value; an endorsement; or an inducement to purchase, sell, or use any company, service, facility, or product. Mere display or distribution—whether for free or for a charge—of a payer's product to the general public at the sponsored activity is not considered an inducement to purchase, sell, or use the product. A single message with both advertising content and an acknowledgment is advertising. These provisions do not apply to activities a payer undertakes on its own (e.g., the purchase of broadcast time from a television station during commercial breaks in a sponsored program).

Exclusivity Arrangements

The final regulations adopt the distinction between an "exclusive sponsor" and an "exclusive provider" that was delineated in the proposed regulations. An arrangement that acknowledges a company as the exclusive sponsor (or the exclusive sponsor representing a particular business or industry) of an exempt organization activity does not, by itself, constitute a substantial return benefit. However, if the arrangement is an exclusive provider arrangement that limits the sale, distribution, availability, or use of competing products in connection with the sponsored activity, the payer has received a substantial return benefit.

Allocation of Payments

The final regulations adopt a reasonable allocation rule. If an arrangement provides that a payer will receive substantial return benefit, only the portion, if any, of the payment that exceeds the FMV of the return benefit is a qualified sponsorship payment. The burden of establishing valuation is on the exempt organization. The final regulations clarify that the fair market value of the substantial return benefit generally is to be determined when the benefit is provided. However, if the parties enter into a binding, written sponsorship contract, the fair market value of any substantial return benefit provided pursuant to that contract is to be determined on the date the parties enter into the sponsorship contract (except in the case of material changes).

Contingent Payments

The amount of a qualified sponsorship payment may not be contingent, by contract or otherwise, on attendance at the exempt organization's event, on broadcast ratings, or on other indications of public exposure that would be typical of advertising. A qualified sponsorship payment may, however, be contingent on the sponsored activity's actually taking place.

Public Support Determinations

Qualified corporate sponsorship payments in the form of money or property (but not services) will be considered as contributions for purposes of the public support tests of sections 170(b)(1)(A)(vi) and 509(a)(2) of the Code. However, this "contribution" classification with respect to the exempt organization does not determine whether the corporate sponsorship payment is deductible by the payer under section 162 as a business expense or under section 170 as a charitable contribution.

Written Agreements

The final regulations maintain that neither the existence nor the detail of a written sponsorship agreement, by itself, disqualifies payment from classification as a qualified sponsorship payment.

Sponsor Hyperlinks

For purposes of section 513(i), the final regulations address the issue of whether a hyperlink constitutes an acknowledgment or advertising in two new examples. In Example 11, a symphony orchestra maintains a website with information about its performance schedule. A music shop makes a payment to fund a concert series. The symphony posts a list of sponsors on its website, including the music shop's name and Internet address, which appears as a hyperlink from the symphony's website to the music shop's website. The symphony's website does not promote or advertise the music shop. The entire payment by the music shop is a qualified sponsorship payment. The posting of its Internet address as a hyperlink does not constitute advertising.

In Example 12, a health-based charity sponsors a year-long program to educate the public about a particular medical condition. A drug company that produces a drug used in treating the condition provides funding for the program to help the charity produce educational materials and post information on its website, which contains a hyperlink to the drug company's website. The drug company's website contains an endorsement by the charity of its drug, which was reviewed and approved in advance by the charity.

The endorsement is advertising, the fair market value of which exceeds 2% of the total payment from the drug company to the charity. Thus, only the portion of the payment, if any, in excess of the fair market value of the advertising can be classified as a qualified sponsorship payment.

The preamble to the final regulations cautions that these two examples deal with hyperlinks in the section 513(i) context only and should not be relied upon with respect to the treatment of hyperlinks for purposes of other sections of the Code.

Safe Harbor Application

The final regulations reiterate that the UBIT treatment of any payment or portion thereof that does meet the requirements for the qualified sponsorship payment safe harbor will be determined by application of the ordinary UBIT rules under sections 512, 513, and 514.

See Final Regulations on Taxation of Tax-Exempt Organizations' Income from Corporate Sponsorship, 67 Fed. Reg. 20433 (April 25, 2002).

Caveat

The general information provided herein is not a substitute for specific legal advice. You should contact your (arch) diocesan legal counsel for advice concerning the application of the tax law to particular fact situations.

APPENDIX X. Guidelines for the preparation of annual budgets

A properly prepared annual budget, the effective implementation of the annual budget, and the regular monitoring of the actual financial performance as compared to the budget, are all necessary to successful and responsible financial management. The annual budget is the roadmap to the success of the ministries. The annual budget is both a product and a tool. It is the most important product and tool that results from the process of financial planning. Financial planning produces an annual budget; developing the annual budget leads to financial decision-making.

An annual budget should be prepared for both the operating and capital needs of the parish or school. Such budgets should clearly state the needs of the entity, along with the resources that are going to provide for those needs. The budget guides the allocation of the available financial resources to the ministry needs. (Resources are limited while the ministry needs of the entity always seem to be unlimited)

But, before an effective annual budget can be prepared, ministry policies, priorities and plans must be clarified by administrators. Administrators are required to clearly state the goals for the budget year, and to reduce where possible the objectives into quantifiable measures. The personnel who are assigned the responsibility of managing the budget must understand these goals and priorities.

The budget preparation process must begin several months before the beginning of the budget year. Advisory boards must be involved in the process so that administrators can receive their recommendations and inputs. Ultimately, advisory boards and the administrators must be "on the same page" with respect to the goals, priorities, needs and funding sources.

The first step in the preparation process must involve a realistic assessment of the available support and revenue that is going to support the ministry needs. Significant effort should be expended in this step so as to be realistic, conservative, and to avoid a mechanical determination of funding sources. The first consideration must be historical experience. The sources and the amounts of support and revenue that has been received in the past are the first indicators that should be considered. Administrators should evaluate the likelihood of the continuation of these sources in the expected amounts. Anticipated new sources of funding should be considered, but, they should not be reflected in the budget unless their receipt is evaluated as being probable based upon a realistic and conservative assessment. One area in which this assessment procedure must be applied is the case of "promises to give". If such sources are included in the budget, advisory boards and administration should be of "one mind" in concluding that the ultimate receipt of the promise is probable.

Based upon the approved policies, goals, priorities, plans and ministry needs of the entity, and the results of the determination of available support and revenue, the expense portion of the budget should be developed.

The first expense need that should be considered is that of personnel. Employee salaries and the cost of their benefits should be determined. Next, obligations resulting from Church law, Diocese financial policies, and regulatory or other requirements, must be considered and quantified. Remaining expenses should be projected based upon whether they are "discretionary" or "non -discretionary".

The determination of a discretionary versus a non-discretionary expense is sometimes elusive. However, if you ask yourselves the question ---"can I get through the next budget year without having to spend this money"--- it will usually produce the correct answer to the question. For example, if you apply this question to expenses such as the electric bill, or the phone service, or religious supplies, the answer is usually that it is a "non-discretionary" expense. If you apply the question to expenses such as travel, entertainment, conferences, meetings, certain supplies or dues and journals, the answer is

usually that it is a “discretionary”. (In actuality, employee salaries combined with their related benefit costs are discretionary expenses also, but, not in the same context as the expenses mentioned above) A realistic determination of the discretionary nature of expenses is particularly important to subsequent steps in the budget process.

Additional budgeted expenses that should become the budget policy for all parishes and schools is the establishment of a contingency reserve for unexpected items, and a provision for the replacement of capital assets. The amount of these budgeted expense provisions could vary greatly from entity to entity, and from year to year, depending upon the current financial and operational circumstances of the parish or school. As a guideline, a goal of providing a total reserve of 5% of the total budget on an annual basis would be commendable.

The next step in the budget preparation process is a comparison of the total projected expenses and capital needs, to the identified support and revenue funding sources. If an excess of funding sources is projected, congratulations!, but, more work is required. If an excess of expenses and capital needs is projected, condolences!, and, more work still needs to be done. Both situations lead to the “decision-making” process that requires easy decisions or tough decisions. In the first situation, you have the easy decisions about expanding programs, ministries, saving the excess funding for a future budget period, or the reduction of debt above and beyond the budgeted reductions. In the second situation, you have the tough decision(s) about what expenses to cut in order to balance the budget.

The budget preparation process is not a “neutral” processing; it is an emotionally draining process. Once a budget is achieved, you must submit it to the prescribed approval process(es).

Now that you have a completed, balanced budget, and the fiscal year begins, more work has to be done. That’s because there are three stages to the budget process: preparation; comparison; and, reaction. You must now implement the process of comparing your annual budget to the actual results of your financial activities during the budget year. Actual variances from budgeted amounts must be determined and reviewed regularly, and a reaction to such variances is required. This reaction is part of the decision-making process that is required to properly administer the finances of your parish or school. If you experience an aggregate of positive variances, you may have the luxury of using the additional funds during the budget year for other financial needs. If you experience an aggregate of negative variances, you have the obligation to decide how you are going to balance the budget before the end of the budget year. Remember, at this point, your advisory boards are an important resource to you to help resolve the budget problem.

A special word about schools-----------schools prepare budgets for the next school year based upon projections of enrollment. Rarely, are these enrollment projections exactly the same as the final enrollment when the school opens in August of each year. And, tuition revenue constitutes a large percentage of the funding sources for the annual budget. Therefore, it is important that schools revisit their budgets as soon as the final enrollment is available, or reasonably estimated, and be prepared to make decisions that might have to be made to place the annual budget back in balance. Earlier, the desirable budget policy of always providing a reserve for unexpected items was mentioned. This budget policy is particularly advisable for schools when they prepare their preliminary budgets, because of the possibility of actual enrollment being less that the original budget number. In addition, it would behoove a school to have the availability of “discretionary” expense items in their budget, so as to have the option of cutting these types of expenses.

In conclusion, the budget preparation, comparison and reaction process is tough for all ministries. It is more difficult to rely on the free-will offerings of the Faithful. There are always more needs than there are resources to meet those needs. It is an emotional process that usually requires a “gut -check” and a resolve to quickly and decisively make the decisions that are necessary to the success of the ministry, and critical to its financial survival.

Appendix XI. School Tuition vs. Donation

Payments made to a parish by parents of children enrolled in a Catholic school may qualify as deductible contributions if they are gifts, *i.e.*, if they are voluntary transfers of funds made with no expectation of obtaining commensurate benefit. Specifically, enrollment in the school must in no manner be contingent on making the payment; the payment must not be made pursuant to a plan (whether express or implied) to convert nondeductible tuition into charitable contributions; and the receipt of the benefit (schooling or reduced tuition payments) must not otherwise be dependent upon making the payment. Rev. Rul. 83-104, 1983-2 C.B. 46, cites the following factors as creating a presumption that a payment is NOT a charitable contribution:

1. The existence of a contract (express or implied) whereby a taxpayer (i.e., parents, etc.) agrees to make a "contribution" and which insures school admission for the taxpayer's child;

2. A plan allowing taxpayers either to pay tuition or make "contributions" in exchange for schooling;

3. The earmarking of contributions for the direct benefit of a particular individual; **or**

4. The otherwise unexplained denial of admission/readmission of children of taxpayers who are financially able but who do not contribute.

Additional adverse factors include:

5. the absence of a significant tuition charge:

6. Substantial or unusual (different from that applied to non-parents) pressure applied to parents of children attending school;

7. Contribution appeals made as part of the admissions or enrollment process;

8. The absence of significant school revenue sources other than parent contributions;

9. Other factors suggesting a contribution policy created as a means of avoiding characterization of payments as tuition.

Situation 6 of Rev. Rul. 83-104 sanctions differential tuition for parishioners and nonparishioners in certain limited circumstances. The parish received contributions from all its members. These contributions are available to support all parish activities, a substantial portion of which are unrelated to the school. The parish has full control over the use of the contributions it receives. Most parish members do not have children in the school. The methods of soliciting contributions from parishioners with children in the school are the same as the methods of soliciting members without children in the school. No tuition is charged to parishioners, but nonparishioners are charged tuition. In this situation, IRS concluded that the contributions made by parishioners with children in the school are ordinarily deductible, unless there is a showing that contributions by parishioners with children in the school are significantly larger than those of other parishioners. [IRS has indicated in other rulings that it will compare parental giving levels to non-parental giving levels in evaluating deductibility of payments. *See* PLR9004030, (October 31, 1989 – released January 26, 1990).] Any attempt to link school enrollment or tuition reductions/benefits to parish contribution or level of parish contribution jeopardizes the deductibility of contributions by parishioners who benefit from such practices. Various labels given to parish contributions, *e.g.*, sacrificial giving, tithing, negotiated tuition, stewardship, minimum giving, etc., are not determinative of deductibility. Further, parishes cannot qualify under Situation 6 by defining parish "membership"(or otherwise qualifying for reduced or no tuition) according to level of contribution. All such practices undercut parish claims that parish contributions are "gifts", the *sine qua non* of charitable deductibility.

Appendix XII. Related Parties - Conflict of Interest Policy

Although written conflict of interest policies cannot prevent illegal or unethical behavior, they can establish expectations and create a proper control environment. The following guidelines for the conflict of interest policy should be considered.

- Dealings with the diocese that could appear to have dual interests or a conflict of interest should be evaluated closely (e.g., transactions with entities which a diocesan employee has a direct or indirect financial interest, or support provided to other organizations in which a member of a board is directly associated). In the interest of full and open disclosure, any such dealings should be disclosed to the bishop.
- On a periodic basis, all personnel should be required to provide a written acknowledgment of compliance with the conflict of interest policy and should indicate such conflicts of interest.
- Whether a matter is of significant importance to constitute a conflict of interest should be left to the discretion of the bishop.

This issue should be addressed by all diocesan organizations, commissions, committees, etc. A sample diocesan conflict of interest/private inurement policy is provided. This sample policy is not a substitute for specific legal advice. Accordingly, consultation with diocesan legal counsel should be sought prior to adoption of a particular conflicts policy and when questions arise concerning its implementation.

Diocesan Conflicts of Interest/Private Inurements Policy—Sample

Purpose

The purpose of this conflicts of interest and private inurements policy is to protect the diocese's interest when it is contemplating entering into a transaction or arrangement that might benefit the interests of private individuals, including but not limited to employees and individuals performing work on behalf of the diocese and other persons in a position to influence the affairs of the diocese. This policy is intended to supplement but not replace any applicable state laws governing conflicts of interest applicable to non-profit and charitable corporations. This policy should be distributed to existing and future executives, officers, trustees, directors, and members of advisory boards and committees

Introduction

Non-profit charitable, religious, and educational organizations obtain their tax-exempt status under the theory that they perform valuable services for society and lessen the burdens of government. If a tax-exempt organization allows its money or other property to be used for private rather than public gain (i.e., for "private inurement" or "private benefit"), then it risks losing its exemption. In addition, under recently adopted "intermediate sanctions" provisions of the Internal Revenue Code, "disqualified persons" such as CEOs, CFOs, board members, major donors doing work for the diocese, etc., who receive "excess benefits" are subject to an excise tax ranging from 25% to 200%, depending on the circumstances. Furthermore, any organizational manager who knowingly facilitates such an excess benefit is subject to a 10% tax. In light of these IRS restrictions and, more importantly, in order to assist the diocese in fulfilling its responsibilities to act as a competent and trustworthy steward of church goods, the diocese has developed this policy.

Identifying a Private Inurement or Private Benefit Problem

In brief, "private inurement" is the *payment* or diversion of an exempt organization's assets to its officers, directors, employees, relatives, friends, major donors, or others in a special relationship to the organization who can influence or control the policy or the day-to-day activities of the organization *for* *less than full and adequate consideration*. It is a broad concept that can exist in a variety of transactions under a variety of circumstances. Private inurement also extends to the use of

organizational assets for "private benefits" such as sales, leasing, construction contracts, service transactions, etc., at other than fair market value or the exploitation of the exempt organization *for the benefit of a private business* (e.g., "sweetheart deals," promotional schemes, and/or giveaways to private individuals or businesses). Thus, under IRS regulations, a private benefit is similar to, but broader than, private inurement.

To avoid the conferment of material private inurements or benefits in the types of transactions described above, the particular diocesan parish, school, or agency must enter into transactions for its benefit, rather than for a private party's benefit, and exercise due diligence to ensure that the proposed transaction is fair and reasonable such that under the circumstances the organization could not have obtained a more advantageous arrangement with reasonable effort. In addition to screening proposed transactions through the applicable corporate boards, parish/school advisory boards, and committees, etc., care should be taken to follow diocesan policies and procedures pertaining to the signing of contracts. For example, parish and school administrators may not execute contracts in excess of $10,000 in amount and/or one year in duration. These must be submitted to the Chancery. They must be reviewed by diocesan legal counsel and signed by the applicable corporate officers at the Chancery. Additional procedures apply in connection with contract bids for building construction, renovation and repair projects.

Conflicts of Interest

A conflict of interest can exist when persons employed by the "diocese" (i.e., the Chancery, parishes, schools, diocesan agencies, and/or affiliated corporate entities), those volunteers of the diocese holding trusteeships or other governance authority, or those serving on advisory or consultative boards or committees have a direct or indirect financial interest, as defined below.

Financial Interest

A person has a "financial interest" if the person has, directly or indirectly, through business, investment, or family (including spouses; brothers or sisters; spouses of brothers or sisters; ancestors; children, grandchildren, and great grandchildren; and spouses of children, grandchildren, and great grandchildren), any one of the following:

a. An ownership or investment interest in any entity with which the diocese has a transaction or arrangement

b. A compensation arrangement with the diocese or with any entity or individual with whom the diocese has a transaction or arrangement

c. A potential ownership or investment interest with, or compensation arrangement with, any entity or individual with whom the diocese is negotiating a transaction or arrangement

Compensation includes direct and indirect remuneration as well as gifts or favors that are substantial in nature.

Duty to Disclose

In connection with any actual or possible conflict of interest, an interested person must disclose the existence and nature of his or her financial interest and all material facts to the applicable board, committee, or corporate officer (i.e., vicar/attorney-in-fact).

Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest and all the material facts, and after any discussions with the interested person, that person shall leave the applicable meeting while the determination of a conflict of interest is discussed and voted upon.

Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest and all the material facts, and after any discussions with the interested person, that person shall leave the applicable meeting while the determination of a conflict of interest is discussed and voted upon.

Procedures for Addressing the Conflict of Interest

1. An interested person may make a presentation at the applicable meeting; but after such presentation, he or she shall leave the meeting during the discussion of, and vote on, the transaction or arrangement that results in the conflict of interest.

2. The chairperson of the board or committee and/or corporate officer shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

3. After exercising due diligence, the board, committee, or corporate officer shall determine whether the organization can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that will not give rise to a conflict of interest.

4. If a more advantageous transaction or arrangement is not reasonably obtainable under circumstances that would not give rise to a conflict of interest, the board, committee, or corporate officer shall determine by a majority vote of the disinterested board or committee members whether the transaction or arrangement is in the organization's best interest and for its own benefit and whether the transaction is fair and reasonable to the organization, and it shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination

Violation of the Conflict of Interest Policy

a. If the board, committee, or corporate officer has reasonable cause to believe that an interested person has failed to disclose actual or possible conflicts of interest, it shall inform the individual of the basis for such belief and afford the person an opportunity to explain the alleged failure to disclose.

b. If, after hearing the response of the person and making such further investigation as may be warranted under the circumstances, the board, committee, or corporate officer determines that the individual has in fact failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Subsequent Conflicts and Disclosures

Notwithstanding previous disclosure of actual or potential conflicts of interest, an individual shall make a new disclosure of conflicts when any matter involving the conflict of interest arises for discussion or action. In the event that an individual is uncertain whether an actual or potential conflict of interest exists, the individual should make disclosure of the circumstances that may give rise to an actual or potential conflict.

Confidential or Privileged Information

Information known to be confidential that is acquired by individuals in the course of employment or association with the diocese and its affiliated entities shall be used only for the benefit and purposes of the diocese. Individuals shall neither disclose confidential information outside the scope of their authorized duties nor utilize their position or association with the diocese for personal identification or advantage, although there may be instances, based on the use of careful discretion and judgment, where incidental use of the association with the diocese may be appropriate.

**PENSION PLAN FOR EMPLOYEES
OF THE ENTITIES OF THE
DIOCESE OF ST. PETERSBURG**

MEMORANDUM

DATE: June 1, 2012

TO: All Entities Participating in the Pension Plan for Employees of the Entities of the Diocese of St. Petersburg

FROM: Plan Administrator
Gabriel Roeder Smith & Company

RE: Final Budget Figures for the Pension Plan
Billing Commencing July 1, 2012

In December 2011, we informed you that the Board of Trustees had established preliminary and tentative contribution rates for the billing year 7/1/2012 through 6/30/2013. These rates were subject to finalization at the May 2012 Board of Trustees' meeting.

At the Trustee's meeting of May 25, 2012, and based upon the Plan's Actuarial Report received on that date, the Board of Trustees decided that the contribution rates for Lay Employees would have to be increased to insure meeting financial commitments of the future. The contribution rates for Priests, Sisters and Brothers remains the same.

The contribution rates for the Plan year beginning July 1, 2012 through June 30, 2013 are as follows:

Priests:	$1,300.00/month
Sisters:	$100.00/month
Brothers:	$100.00/month
Lay Employees:	11% of 2011 W-2 earnings and Other Compensation divided by 12

Should you have any questions, please do not hesitate to contact us.

RECEIVED
JUN 04 2012
FINANCE

ADMINISTRATOR: GABRIEL, ROEDER, SMITH & COMPANY
ONE EAST BROWARD BLVD., SUITE 505 • FORT LAUDERDALE, FLORIDA 33301 • (954) 527-1616 • FAX (954) 525-0083 • WWW.GRS-PLAN.COM

DIOCESE
OF ST. PETERSBURG
Pastoral Center

March 30, 2012

To: "See distribution list"

From: Paul A. Ward, Jr.
Executive Director of Finance

Re: Diocesan Program Rates for fiscal year 2012/2013

Attached is the annual distribution of approved Diocesan Program Rates that are applicable to the fiscal year beginning July 1, 2012 for all Diocesan entities. As in prior years, I have indicated all changes from the previous fiscal year in "**bold type**". Please review the document carefully in order to identify these changes.

If you any questions or need further information, please do not hesitate to contact me at 727-341-6843, or at paw@dosp.org.

Thank you.

6363 9th Ave. N • St. Petersburg, FL • 33710 • Ph: (727) 344-1611 • Fax: (727) 345-2143
Post Office Box 40200 • St. Petersburg, FL • 33743-0200

DIOCESE OF ST. PETERSBURG

March 15, 2012

DIOCESAN PROGRAMS' RATES, WITH SELECTED POLICIES
FOR THE FISCAL YEAR JULY 1, 2012 THROUGH JUNE 30, 2013
(Rate changes from previous year are indicated in bold)

Savings and Loan Fund Trust; account interest rates

All Savings accounts	1.5% per annum
All Loans, except insurance premiums	*4.0%* per annum
Past due insurance premium loans	6.0% per annum

Emmaus Foundation, Inc. D/B/A The Catholic Foundation
Schools CSREA(Endowed) funds return rate

Unless notified otherwise by the participant school, these funds are considered to be endowed funds, restricted as such by the donor. As such, the Principal amount of the fund may not be invaded. The actual rate of return (or loss) on these invested funds, less investment management fees, will be allocated to each participants account quarterly based on the percentage that each School's invested funds bears to the total of all Schools' invested funds (a pro-rata basis). It is strongly recommended that **no more than a 4% annual return be budgeted** and used from these endowed funds, irrespective of the actual earnings of the funds.

Parish assessment(**APA2012**)

For the fiscal year 2012/2013, the Parish assessment is your "APA2012" Goal. The amount of this Goal/Assessment has been communicated to each Pastor, and its accounting treatment and payment will be handled in accordance with the instructions of the Parish Accounting Office at the Pastoral Center. The total assessment must be paid via APA collections and direct remittances. Any shortage between your Goal and your estimated APA pledge collections should be remitted monthly during the fiscal year beginning with the first month of the fiscal year (July). The total parish assessment should be budgeted in your expense budget, and estimated

Diocesan Program Rates, Fiscal Year 2012/2013, page two

proceeds from the APA2011 Campaign should be budgeted in your support and revenue budgets.

In the event there remains a balance due on your total assessment at June 30, 2013, a loan may be created in the Diocesan Savings & Loan Fund Trust for the balance due. However, and in this event, the parish will be considered a "financially-challenged" parish, subject to the provisions of Diocesan Policy with respect to such parishes. This loan is due and payable within the next fiscal year. All proceeds from APA campaigns and direct remittances are first applied to outstanding assessment loans.

Special Assessment for Schools

As in fiscal year 2011/2012, there will be a 1% Special Assessment for Schools in 2012/2013. Such assessment will be based upon 1% of offertory as defined in the Parish Assessment formula, using such offertory for the year ended June 30, 2012. **For 2012/2013 budget purposes, each parish should use an estimate of this amount (i.e., for lack of better information, use the actual amount of the 2011/2012 assessment). The actual assessment will be provided in the Fall of 2012, and is payable 50% by November 1, 2012 and 50% by May 1, 2013.**

Unpaid assessments for 2011/2012 (as of June 30, 2012) should be budgeted in fiscal year 2012/2013 and paid on or before October 1, 2012.

Catholics Come Home Program

Unpaid obligations for 2011/2012 (as of June 30, 2012) should be budgeted in fiscal year 2012/2013 and paid on or before October 1, 2012.

Parish Support to Schools

Effective July 1, 2012, Bishop Robert Lynch has approved the formation of a Diocesan School System. Under this System, all parishes will be affected

Diocesan Program Rates, Fiscal Year 2012/2013, page three

In 2012/2013 by the required obligation to our schools under this school plan, referred to as the "11%/4% Plan". Each Pastor will receive a distribution from the Vicar General's Office outlining these new school support requirements, and how they are to be satisfied.

Women Religious stipend and allowances

All compensation paid to Women Religious must be paid directly to the Religious Order, or jointly to the Order and the Religious. Compensation checks may not be made payable to the Religious. It is recommended that a Form W-9 be secured from the Provincial Office(s) representing that these compensation payments are not subject to federal tax withholding.

Pension Plan Premiums (Contributions)
Pension Plan for the Employees of the Entities of the Diocese of St. Petersburg

Incardinated priests	**$ 1,300.00 per month**
Women religious	100.00 per month
Lay personnel	**11% of 2011 W-2 wages,** as adjusted in accordance with the instructions received from the Plan Administrator as part of the Annual Census submission

These rates are subject to final approval at the May, 2012 Board meeting. Any changes will be immediately communicated to all entities.

You should consult the Pension Plan booklets for the participation requirements of the Plan. All matters involving the determination of benefits under this Plan are determined by the Plan Administrator, Gabriel, Roeder and Smith, and oversight is exercised by the Trustees of the Plan. All questions should be addressed directly to the Plan Administrator.

Diocesan Program Rates, Fiscal Year 2012/2013, page four

For Religious/Extern Priests not included in the above Plan:

A premium is payable to the Priest's plan, equal to the actual amount of the plan's premium, or $ 5,640 per year, whichever is lesser. Please consult the booklet, Compensation and Benefits for Priests, published annually by the Chancellor's Office for specific procedures in this matter.

Payroll taxes

The following rates apply for the calendar year 2012 for personnel subject to payroll tax withholding, and for the employer:

FOR THE EMPLOYER:
Social Security Tax————6.2% of the first **$110,100** in wages
Medicare Tax——————1.45 % of all wages
FOR THE EMPLOYEE:
Social Security Tax————4.2% of the first **$110,100** in wages
Medicare Tax——————1.45% of all wages

INSURANCE AND EMPLOYEE BENEFIT FUNDS' TRUST
Health Insurance Plans

For all eligible Lay and Religious employees:

UnitedHealthcare Choice Plus Plan A (Employee or retiree contribution required in accordance with the attached schedule)
UnitedHealthcare Choice Plus Plan B (Employee or retiree contribution not required)

PARTICIPATION REQUIREMENTS FOR LAY PERSONNEL CHANGED FOR PERSONNEL HIRED AFTER MARCH 1, 2010.

Diocesan Program Rates, Fiscal Year 2012/2013, page five

For Priests: UnitedHealthcare (Please note that Religious Priests have the option of electing this Plan during Open Enrollment)

Employer contribution rates for the Choice Plus Plan A, Choice Plus Plan B, and the Priest's Plan of UnitedHealthcare are:

Lay and Religious personnel:	
Under 65 years of age	$ 540.00 per month
Over 65 years of age	555.00 " "
Incardinated and Extern Priests:	
Under 65 years of age	$ 900.00 " "
Over 65 years of age	910.00 " "
Retired and under 65 years of age	860.00 " "
Retired and over 65 years of age	510.00 " "

Retirees Continuing on Health Plan

Effective July 1, 2012, the administration of the billing and collection of health plan premiums for retired Priests and Lay personnel will be handled by the Retirement Services Office of the Human Resources Office of the Pastoral Center. These personnel will no longer appear on the billings sent to parishes, schools and other Diocesan entities.

Premium-Only-Plan of the Diocesan Health Plans (IRS Code Sec 125)

All eligible participants in the Health Insurance Plans are eligible to participate in this Plan at no cost to the employer or the employee. Please consult the attached schedule of participant contribution rates.

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Group life insurance and ADD

Priests, Eligible Religious and Eligible Lay personnel, under age 65 — $4.56 per $1,000 of coverage (salary up to $100,000 per year), annually. Priests are subject to schedule of coverage based upon their age; you should consult the booklet issued by the Chancellor's Office entitled, Compensation and Benefits for Priests. (See Note below)

Personnel over age 65 - contact the Employee Benefits Office at the Pastoral Center.

Short-term and Long-term disability insurance

Effective July 1, 2012, a Short-term disability program has been added to the Diocese employee benefits program, along with the existing LTD program. This additional benefit will be provided in fiscal year 2012/2013 at no additional cost to our entities or to our employees. You will be receiving further information about this new benefit from the Pastoral Center Human Resources Office.

Short-term and Long-term disability rate for Eligible Lay employees – $6.37 per $1,000 of employee salary up to $60,000, annually. (See Note below)

NOTE: PARTICIPATION REQUIREMENTS CHANGED FOR BOTH THE GROUP LIFE AND DISABILITY PLANS FOR LAY EMPLOYEES HIRED AFTER MARCH 1, 2010.

Contributory Employee Benefits

All Diocesan programs for which a contributory premium is required from the employee must be withheld from the employee's paycheck. Effective October 1, 2010, all payrolls must be processed on the IOI payroll system.

Diocesan Program Rates, Fiscal Year 2012/2013, page seven

Property and Liability Insurance

$4.60 per $ 1,000 of "Replacement Cost Value" of all buildings and their contents. **Effective July 1, 2012, all "Replacement Cost Values" will be increased by 2.9%, as required by our insurance carrier.**

Premiums based upon the Replacement Cost Value for construction projects completed during the fiscal year will be billed when the project is completed and a Certificate of Occupancy has been received. Those entities that are expecting such a project to be completed during 2012/2013, should budget an estimate for this billing.

Vehicles—Property damage and liability

Autos	$ 965.00 per year
Trucks	975.00 per year
Vans	1,080.00 per year
School buses	1,650.00 per year

Note: Please notify the Insurance Office at the Pastoral Center if you have a vehicle that does not fit one of the description types above. In addition, all vehicles that are owned by you at July 1, 2011 must be included in this coverage.

Workers' Compensation Insurance

All Office/Clergy/Professional employees——$.90 per $100 of wages per year.

All other employees—————— $9.00 per $100 of wages per year.

Note: Independent contractors and other non-employees working on Diocese property must provide evidence of their own Workers' Compensation insurance coverage. Please consult the Insurance Office

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at the Pastoral Center if you need further guidance.

Insurance and Employee Benefit Plans' Premium Billings:

Health, Life and LTD Plans' premium billings are sent each month by the Employee Benefits' Office of the Pastoral Center, and are payable monthly. Pension Plan premium billings are sent each month by the Plan Administrator, and are payable monthly in accordance with the instructions of the Plan Administrator. The annual Property and Liability, Vehicles, and Workers' Compensation premium billing is posted on-line on the Diocesan website under the Insurance Office is to be remitted in monthly payments beginning July 1, 2012 in 12 equal installments.

Premiums not remitted in accordance with the payment terms will be converted into interest -bearing loans in the Diocesan Savings & Loan Fund Trust, in accordance with existing Diocesan Policy. (See Savings and Loan Fund Trust interest rates above)

Schools—Student Accident Insurance

Required of all students in all schools —— $ 10 per student per year.

Unemployment Compensation Insurance

Applies to all Lay employees, both full -time and part -time. Payable at 2% of the first $7,000 of wages paid in calendar year 2010, as indicated on the employees Form W-2. The total annual premium will be billed to each entity on July 1, 2012. Such annual premium is payable quarterly in four equal installments.

Note: Unemployment Compensation Quarterly reports (UCT-6) are filed with the State of Florida automatically through our IOI payroll system. However, DO NOT REMIT PREMIUMS TO THE STATE; remit them directly to the Pastoral Center. Also, DO NOT MAKE ANY BENEFIT CLAIM PAYMENTS; all benefit

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claims must be reviewed and approved by the Human Resources Office at the Pastoral Center, and payments of claims are paid directly to the State by the U.C. Plan at the Pastoral Center.

Parish Financial Reviews

All Parishes that have not had a review since fiscal year **2008/2009** or earlier will be scheduled for an Agreed-Upon Procedures Review in fiscal year 2012/2013. As such, those parishes should budget $5,000 for the cost of the Review. You will be contacted by the Parish Accounting Office at the Pastoral Center regarding the scheduling of this Review.

Cost-of-living(COLA) index

As is the case every year, this index of estimated cost escalation is a blending of numerous indices for many different types of consumer costs. We continue to recommend that each parish/school specifically evaluate the cost escalation in the different types of costs in your budgets in order to reflect more accurately any non-personnel related cost increases that result from rising prices.

Permanent Deacons

Permanent Deacons who are canonically-assigned or are serving in retirement are to be paid the following allowances and reimbursable expenses by the institution to which the Deacon is canonically assigned or serving in retirement:

Annual retreat	**actual cost to $600**
Formation opportunities provided by the Diocese	**actual cost to $300**
Annual Books, Periodicals, Internet	**actual cost to $500**

(Please note that this payment Policy has been effective since July 1, 2009)

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Other Diocesan Sources

All parishes and schools should refer to the following Diocesan Manuals for further information concerning Diocesan Programs and Policies, and the preparation and submission of annual budgets:

Financial Guidelines and Policies Manual for Parishes, Schools and Early Childhood Centers
Employee Handbook
Summary of Lay Compensation and Benefits
Compensation and Benefits for Priests
Administrators Guide to Diocesan Insurance and Risk Management Procedures

Distribution:
All Pastors
All Principals (w/o clergy compensation schedule)
All Bookkeepers (w/o clergy compensation schedule)
Rev. Msgr. Robert Morris, V.G.
Elizabeth Deptula, Secretary For Administration
Frank Murphy, Secretary For Christian Services
Joan Morgan, Chancellor
"Diocesan Finance Council"
Alberto Vasquez-Matos, Superintendent of Catholic Schools
Lisa Campbell, Controller
Tracy Kelly, Ass't Controller
Michael Akers, Director of Parish Accounting
Chris Rajk, Executive Director of Human Resources
Ricardo Osorio, Director of Insurance

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Priests' Salaries and Allowances

	Pastor	Parochial Vicars
Monthly salary	**$ 1,700.00**	**$ 1,436.00**
Monthly auto allowance	**946.00**	**946.00**
Annual auto insurance (at cost, max)	1,250.00	1,250.00
Annual auto tags and license	(at cost)	(at cost)
Continuing Education (at cost, max)	1,750.00	1,750.00
Annual Retreat (at cost, max)	1,000.00	1,000.00
Diocesan Convocation	(at cost)	(at cost)
Annual books, periodicals and Internet usage (at cost, max)	500.00	500.00
Annual "in-residence" housing	8,000.00	8,000.00

For other benefits and policies with respect to priests, please consult the booklet entitled, Compensation and Benefits for Priests, issued by the Chancellor's Office each year.

DIOCESE OF ST. PETERSBURG HEALTH PLAN
PARTICIPANT MONTHLY CONTRIBUTIONS EFFECTIVE JULY 1, 2012

COVERAGE FOR	----------------P L A N--------------- CHOICE PLUS "A"	CHOICE PLUS "B"
Active participants:		
Under 65 years	80.00	-0-
Over 65 years	92.00	-0-
Dependents of participants:		
Spouse only	395.00	350.00
Child(ren) only	325.00	280.00
Spouse and Child(ren)	590.00	500.00
Retired participants:		
Under 65 years	600.00	575.00
Over 65 years	300.00	290.00
Spouse of retired participant:		
Under 65 years	400.00	370.00
Over 65 years	225.00	220.00

****

Participant and dependent contributions must be withheld from the participant's pay check. In the case of Religious, and if applicable, the contribution must be withheld from the compensation remitted to the Religious Order. Participants must provide written authorization for such withholding. Participants will be given the option of having their contributions treated on a "pre-tax" basis in accordance with the Diocesan Health Plan's Section 125 Plan. Retired participants must be receiving retirement benefits from the Diocesan Pension Plan to participate, and will be billed monthly for their coverages.

Appendix XIV. Resources

American Institute of Certified Public Accountants (AICPA) - Promulgates auditing standards for CPAs in the United States and is also a source of additional guidance on application of accounting standards. Includes the Accounting Standards Executive Committee (AcSEC). Website: *www.aicpa.org*. Address: 1211 Avenue of the Americas, New York, NY 10036.

Association of Certified Fraud Examiners - Offers resources to help organizations implement fraud protection environment and measures to reduce risk of fraud. Website: www.cfenet.com

Canon Law Society of America (CLSA) - A professional association whose members are dedicated to the promotion of the study and application of canon law in the Roman Catholic Church. Website: *www.clsa.org*. Address: 431 Caldwell Hall, The Catholic University of America, Washington, DC 20064-0002.

Church Law & Tax Report—A review of legal and tax developments affecting ministers and churches. Published bimonthly by Christian Ministry Resources, P.O. Box 1098, Matthews, NC, 28106.

Diocesan Fiscal Management Conference (DFMC) - "Provides fiscal and administrative expertise and professional services to the local and national Church." Website: *www.dfmconf.org*. Address: P.O. Box 199, Waterville, OH 43566.

Diocesan Information Systems Conference (DISC) - maintains an up-to-date listing of financial and other software used by member dioceses throughout the United States. Website: *www.discinfo.org*

Ethics Resource Center - provides expertise and services to strengthen ethical leadership. Website: *www.ethics.org*

Financial Accounting Standards Board (FASB) - Promulgates accounting standards for nonprofit and commercial entities in the United States. Source for Statements of Financial Accounting Standards (SFAS). Website: *www.fasb.org*. Address: 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

Foundation and Donors Interested in Catholic Activities (FADICA) - An association of independent foundations with interests in projects under Catholic sponsorship. Website: *www.fadica.org*. Address: 1350 Connecticut Avenue NW, Suite 303, Washington, DC 20036.

Institute of Management Accountants - Predominately for "for profit" organizations, but, their financial management resources still recommended for use in most dioceses. Website: www.imanet.org

Internal Revenue Service (IRS) - Offers Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*, and Publication 1828 *Tax Guide for Churches and Religious* Organizations as well as other publications. Website: www.irs.gov.

Information Systems Audit and Control Association - Offers resources to aid in automated systems environment, structure and controls. Website: *www.isaca.org*

National Association of Treasurers of Religious Institutes (NATRI) - Publishes Financial Management and Accounting Manual for Religious Institutes, 3rd ed. (1999). Website: *www.natri.org*. Address: 8824 Cameron St., Silver Spring, MD 20910.

National Federation of Priests' Council (NFPC) - Offers *Income Taxes for Priests Only* by Wayne Martin Lenell, C.P.A., Ph.D. Website NFPC.org. Address: 1337 W. Ohio Street, Chicago, IL 60622.

Practitioners Publishing Company (PPC) - Offers a variety of publications, including *Guide to Preparing Nonprofit Financial Statements, 990 Deskbook, and Audits of Nonprofit Organizations.* Website: *www.ppcnet.com*. Address: P.O. Box 966, Fort Worth, TX 76101-0966.

Society for Human Resource Management - Offers resources for use in personnel management: Website: *www.shrm.org*

United States Conference of Catholic Bishops (USCCB) - Offers this manual and *Diocesan Internal Controls: A Framework* (available from USCCB Publishing), as well as a variety of resources from the Office of General Counsel. Website: *www.usccb.org*. Address: 3211 Fourth Street NE, Washington, DC 20017-1194. Phone: USCCB Publishing, 800-235-8722; OGC or other offices, 202-541-3000.

United States Office of Management and Budget (OMB) - Issues rules for entities receiving federal assistance and for audits of those entities. Website: *www.whitehouse.gov/omb/grants* Address: 725 17th Street NW, Washington, DC 20503.

Yale School of Management/Goldman Sachs Foundation - Provides educational and financial support for nonprofit enterprise for business ventures; offers planning assistance, cash awards and access to investment advice. Website: *www.ventures.yale.edu*